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Working Hour, Ordinary Wage
Disputes Are Twin Time Bombs

NATIONAL**TOWARDS REUNIFICATION**

Park Revealed Reunification
Plans in Dresden Speech

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C O N T E N T S



Kakao Talk :
Vanguard of Korea's New Creative Generation

COVER STORY

- 22 KakaoTalk Offers Rare Sight of True Innovation
KakaoTalk Offers Rare Sight of True Innovation
- 25 Innovative Interview
A Corporate Culture that Encourages Debate, Innovation
- 28 Kakao Game Success Story
Better than Angry Birds: Breakout Gingerbread Man Runs Off with All the Money
- 29 Kakao's New Marketplace
Bringing Characters to Life in KakaoTalk's Ecosystem



Sirgoo Lee, co-CEO of KakaoTalk

FOCUS

- 08 Complicating & Worsening Labor Issues
Working Hour Issue, Ordinary Wage Dispute Are Twin Time Bombs

NATIONAL

- 18 Towards Reunification
Park Revealed Reunification Plans in Dresden Speech
- 12 Korea-Australia FTA
Korea, Australia Sign Bilateral Free Trade Deal
- 13 Korea-Africa Sharing
Korea-Africa Economic Cooperation Conference in October
- 14 Bangladesh-Korea Relations
The Complimentary Relationship has Been Getting More Important
- 16 Regulation Armageddon
2,200 "Regulations like Cancer Lumps" to Be Excised
- 17 Social Conflicts
Driving Korea to Inefficient Resource Distribution, Huge Social Costs

- 18 Evangelist of Happiness
Providing Forest Welfare While Sharing Experience with Developing Nations

- 20 Wage System
Labor Ministry Urges Companies to Base Wages on Performance, not Seniority

ECONOMY & FINANCE

- 30 Top5 Risks for Korean Economy
What Are Short & Long-term Risks for Korean Economy?
- 31 Upward Adjustment
Rosier Outlook on Economic Growth?
- 32 Foreign Trade Dependence
Korea's Reliance on Foreign Trade Falling Gradually
- 33 Hoarding Cash
Leading Conglomerates in Korea Scrambling for Cash
- 34 Cruel Times
Corporate Bonds of Construction, Aviation, Shipping Industries Downgraded to Speculative Grade



President Park Geun-hye of South Korea and German Chancellor Angela Merkel.



Bangladesh's Ambassador to Korea, Md. Enamul Kabir



Korea Forest Service Minister Shin Won-sop.

35 Evaporated Money
10 Major Groups Lost 26 Trillion Won in Market Cap This Year

36 World's First Ship-covered Bond Deal
Korea Eximbank to Finance Scorpio Tankers for US\$300 Million

37 Korean Shadow Banking
Shadow Banking Exceeds 1.5 Quadrillion Won in Size

SPECIAL REPORT

38 Medical Export
Korean Medicine Heading Overseas, and Vice Versa

40 Incheon Medical Tourism Foundation
Helping Incheon City to Be Medical Airport Hub in Northeast Asia

INDUSTRY & COMPANIES

42 Profit Oligarchy
Net Profit Polarization Deepened Last Year

43 Crimean Crisis
Korean Corporations on the Watch as Crimea Gets Annexed by Russia

44 Everything Must Go
March Exports Up 5.2 percent, Led by IT

45 Huge M&A Loss
Hyundai Group on the Brink Due to Unreasonable M&A

46 High-flying Compensation
Tycoons' Annual Salaries Revealed

48 Outperforming Japan
Korea Occupies Runner-up Position in Global Semiconductor Market

50 NAND Market
Samsung Maintains Top Spot in Global NAND Flash Memory Market in 2013

51 Advanced Memory Cards
Samsung Develops New Memory Card Lineup using 5-Proof Technology

52 Competition in Wearable Market
Global IT Giants Competing for Wearable Device Market

54 3D UHD TV
LG Display Zeroing in on 3D UHD TV Market

56 OS Dependence
Korea, China with Same Plan for OS Development, but Different Results

59 Reducing Presences
Traditional Global IT Companies Moving on to Next IT Country?

60 Hyundai Motors in China
Hyundai Motor Group Reaches Out to Consumers in Western China

62 Tough Times
Steel Industry Hit by Low-priced Chinese Imports

63 Crisis of Shipping Industry
Shipbuilding Orders from Korean Shipping Firms Drying Up

64 Earning Shocks
Oil Refining and Chemical Firms Predicted to Come Up with Less-than-expected Earnings

65 Samhwa Paints
Opening New Chapter with New Leader



Kim Bong-ki, CEO of the Incheon Medical Tourism Foundation (IMTF).

40

66 Medical Innovations
Hot Pursuit of New Combo Drugs

67 Korean Casinos
Casino Market Opens to Foreign Businesses

SCIENCE & TECHNOLOGY

68 Lithium Batteries
UNIST Develops Novel Tech for Doubling Lithium Rechargeable Battery Capacity

70 Scanning Seebeck Microscope
Korean Research Team Develops Tech to Observe Electron Cloud Shapes

MICE

72 2014 ITU
ITU to Last for 3 Weeks in 2014 in South Korea

CULTURE

74 Horse Racing
Gambling vs. Corporate Social Responsibility

76 Digital Life
Disastrous Day without Windows OS; Need to Change OS Environment

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**Labor Hour Reductions**

Another storm is coming to the business community, this time in the form of a weekly working hour reduction from 68 to 52. Along with the ordinary wage issue that heated up throughout last year, the matter is signaling a tectonic shift in the way of doing business down the road.

According to the current Labor Standards Act of Korea, the weekly working hours is 40, and up to 12 hours of overtime are allowed. The number increases to 68 per week when 16 hours of holiday time is added. The annual working hours of Korean workers, which have reached an average of 2,092, are the third-longest among OECD member countries. Nonetheless, Korea's labor productivity per hour is limited to US\$29.70, much less than the United States' US\$60.20 and the OECD average of US\$44.60. The employees have made up for their wages by working more, and the employers have ordered them to work more instead of hiring more people. In the end, such long hours of work have broken the work-life balance in Korea, resulting in deteriorated living standards.

The participants of the Tripartite Subcommittee of the National Assembly have agreed to cut the weekly working hours from 68 to 52 during the course of their negotiations, but they have yet to address their different views on how to do so. Employers are insisting on a phased implementation of the law with a grace period, in order to place a lighter burden on their part. The labor community, meanwhile, is claiming that working hours must be reduced without any cut in wages.

Greater cost burdens due to reduced labor hours are becoming a reality on the part of the corporate sector. Employees are maintaining that the current wage level be retained by means of higher base salaries. There is no way to enhance productivity when the labor hours are shortened in such a rapid manner. Companies have to build more facilities or hire more workers, but this is a tall order for small and mid-size firms with little financial breathing room. This is just one of many more areas in which labor and management are having hard time addressing their differing views.

It is not desirable for law to come into play to handle the specific issues associated with working hours amid such a wide gap in opinions. What is necessary now is the minimization of regulations for the sake of a voluntary solution.

It cannot be denied that the working hours should be cut. However, when the law forces corporations to take on greater costs, jobs are sure to disappear along with investment in the long term. Then, employment increases, one of the goals of labor hour reductions, cannot be expected, and Korean companies' competitiveness will plummet while foreign companies in Korea would not find the local economy attractive anymore. The most urgent matter is the improvement of productivity. Not only labor and management but the government and the political community will have to pool their wisdom on this subject with long-term views.

Park Jung-hwan,
Publisher & Editor-in-Chief



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Complicating & Worsening Labor Issues

Working Hour Issue, Ordinary Wage Dispute Are Twin Time Bombs

The personnel expenses issue is about to explode across industries. The revised Labor Standards Act for shorter working hours will pass the National Assembly this month, and employees are in negotiations with their employers to include bonuses into the ordinary wage. Those over the minimum wage are likely to go on for months from now as well.

The draft of the revision to the Labor Standards Act, which stipulates that holiday work is included in extended working hours while cutting the weekly working hours from 68 to 52, has come out into the open. The Tripartite Subcommittee of the National Assembly Environment and Labor Com-

mittee held a public hearing on April 9, and the participants had a fierce battle over the revised bill. The three parties agreed with one another on the reduction of working hours, but failed to reach a consensus when it came to specific measures.

Entrepreneurs are complaining over the double whammy of ordinary wage and sudden labor hour reductions. In response, the labor world is claiming that the cut is a matter of course, with Korean workers recording the longest working hours in the world.

According to the Korea Labor Institute, corporations have to burden immediate additional costs of at least 7.6 trillion won (US\$7.3 billion) when the stat-

utory working hours are decreased to 52. In addition, will they have to pay over 1 trillion won (US\$960 million) each year in additional costs. In particular, small and mid-size enterprises, where overtime work is more frequent, have to shoulder approximately 5.0339 trillion won (US\$4.8325 billion).

Another hot-button issue is the scope of ordinary wages, which has come to the surface since the recent Supreme Court Full Bench ruling that regular bonuses can be considered as a part of ordinary wages. The labor unions of Hyundai Motor Company and Kia Motors have already asked for the application of the ruling to wage negotiations and collective bargaining for this year, in



confrontation with employers. Employers, on the other hand, are opposed to the sudden increase in overtime pay, severance pay, and employee benefits to be calculated based on the ordinary wage. The Korea Employers Federation (KEF) has recently warned that the inclusion of bonuses in the normal wage would lead to additional costs of 8.8 trillion won (US\$8.4 billion) a year, which, in turn, would result in 96,000 fewer jobs on a yearly basis.

Labor and management are having disputes surrounding the retroactive application of the ruling, too. The former has issued a warning of a series of lawsuits along with the organization of a joint struggle committee. It is in this context that the ordinary wage suit filed in 2011 with the Seoul Central District Court by 27,000 union members of Kia Motors and a similar one raised early last year by dozens of Hyundai Motor labor union members have begun to show some progress.

Additionally, the Supreme Court ruling in favor of the payment of 200 percent of the normal wage for holiday work is scheduled to be handled after the parliamentary passage of the bill for reduced working hours. A number of lawsuits for retroactive application are foreseen, as with those over the normal wage.

Business Community Trying to Buy Time before Legislation

Corporate managers, in the meantime, have opted not to hurry over the bill, veering from their stance to amend the act through a tripartite agreement before the Supreme Court ruling. They are now trying to fix the overtime and holiday working hours based on a voluntary agreement between themselves and the labor sector, allowing for the situations of individual businesses. In short, they are taking a proactive stance focusing on autonomy rather than legal regulations. Still, the three-party dialogues for dealing with the major pending issues are slated to continue.

“The government and the political community are anticipating, ahead of the ruling, that the Supreme Court

will include holiday work in extended hours,” said an anonymous source from an economic organization, adding, “They are forcing us to cooperate by means of the logic that early enactment is advantageous for the corporate sector.” The Supreme Court was going to deliver its ruling on the number of working hours earlier this year. However, it has postponed the judgment since the onset of the three-party talks. The question still under consideration is whether or not the maximum weekly working hours should be 68 – including 40 regular, 12 extended, and 16 holiday – or 52 hours excluding holidays.

“Many people say that the Supreme Court decision to include holiday work in the extended hours will lead immediately to the reduction of working hours to 52 but it is not true,” KEF Vice Chairman Kim Yeong-bae explained, continuing, “The decision overturns its own ruling delivered in 1991, which means a Full Bench consideration will be required as in the case of the ordinary wage issue.” This implies that management will turn to the Full Bench depending on the Supreme Court decision to stall for a year or so at the least. The Supreme Court accepted eight hours of holiday labor 23 years ago. The labor authorities came up with its administrative interpretation in 1993 on the basis of the decision, and it has been applied so far. However, the labor hour issue emerged again in 2012, when the Seoul High Court reached a conflicting verdict. The government selected a reduction of working hours as one of its most urgent national policy goals, and has hurried to revise the Labor Standards Act.


The business community agrees to the reduction of the maximum weekly working hours by 8 to sixty, but is calling for some adjustment in pace in view of the reality of the situation. “If we are compelled to comply with an act that we cannot abide by in practice, even greater chaos will follow in the form of production failures, unintended violations of law, successive lawsuits, and deteriorating labor-management relations,” said a human resources director of a leading

business group. He added, “More and more economic organization members are pointing out nowadays that such a call from us is not reflected at all, as the law revision is accelerated by the political community.”

Under the circumstances, the KEF has recently sent companies directives for voluntary extended work based on labor-management agreements, a ban on income preservation for no holiday work, and payment of wages grounded on productivity. The idea is to let employees and employers decide labor hours on their own. At the same time, the organization is planning to increase part-time jobs and encourage workers to use their annual and monthly leaves more freely, in an effort to reduce real working hours.

“Many foreign governments are encouraging the work-life balance of their people by adopting flexible labor hours and allowing more types of work,” said KEF Senior Managing Director Lee Dong-eung, continuing, “What matters more than a uniform reduction is a legal system allowing flexible working hours.”

However, the labor community is strongly opposed to such arguments. “What the entrepreneurs are trying to do is turn the tables in favor of themselves by mentioning the Full Bench and stalling for time and this is just a shallow trick.” Federation of Korean Trade Unions Secretary General Lee Jeong-shik criticized. He also said, “The Tripartite Subcommittee agreed back in 2010 to decrease the annual working hours to 1,800 by 2020, and it is totally absurd to say that more time is required for preparations.”

Korea has decreased its maximum legal working hours. Nevertheless, its real labor hours are second to none in the OECD, despite such consistent efforts. Employees in most of the member countries work less than 2,000 hours a year whereas paid employees in Korea worked 2,092 hours in 2012. Yet, the labor productivity of Korean workers is about half those of their US and German counterparts. 



President Park Geun-hye of South Korea and German Chancellor Angela Merkel shake hands during a meeting at the chancellery in Berlin, Germany on Wednesday, March 26, 2014. (AP Photo/Markus Schreiber)

Towards Reunification

Park Revealed Reunification Plans in Dresden Speech

President Park Geun-hye and German Chancellor Angela Merkel discussed the history of Germany's reunification and its application to Korea's future reunification at a summit and dinner on March 26 (local time).

The Korean president, through the summit meeting, refined her own reunification bonanza strategy that emphasizes the economic benefits of reunification. She nailed down details of her plan by carefully studying the process of Germany's reunification. Her bonanza strategy is to think about reunification from the angle of maximizing Korea's economic volume in terms of the "economy of scale," which goes beyond expanding its economic territory.

After her talk with Merkel, President Park stressed the importance of sharing Germany's reunification experience and the need to deal with a sense of difference, or the emotional gap between the two Koreas.

The day before, President Park reconfirmed the importance of trilateral cooperation at a three-way summit meeting between South Korea, the U.S., and Japan, saying, "If North Korea takes the path of denuclearization, it will lead to easing of its residents' difficulties." The statement stressed that in the process of unification, North Korea's nuclear disarmament is the only way to free its citizens from poverty and repression.

Park reaffirmed that she will continue giving humanitarian aid to North Korean residents to overcome the sense of difference or disharmony, while explaining to the chancellor about the background of her reunification bonanza strategy.

Her German counterpart is known to have presented her own measures and political ideas on reunification including minimizing reunification costs, recovering a sense of kinship, assuring the soft landing of an integrated social system, and combining national defenses, while also evaluating Park's strategy highly.

The Blue House comments that the meeting was conducted amid a most friendly atmosphere, given their special ties.

The two leaders have a lot in common in political philosophy and values. They are both self-made women who have reached the top, the first female presidents in their respective countries, coming to power after both countries have overcome daunting political challenges. The two resemble each other in their state policy as well, as both have a strong drive and stern principles.

The two even share a political history, in that they both have science/engineering backgrounds. President Park majored in electrical engineering while Merkel majored in physics, and both rescued their troubled parties as the conservative opposition party leaders.

Park and Merkel first met back in October 2000, when Park visited Germany on an inspection as the deputy governor of the opposition party. Merkel was the party leader of Germany's opposition party at the time, as well. Park recalls their first meeting as including a lot of discussion on South-North Korean exchanges.

Also, it is known that Merkel had a lot of influence on Park



in terms of forming a political philosophy and values, as the latter kept track of German social and economic reforms led by the chancellor.

They continued their friendship, illustrated by Merkel sending a congratulatory letter when Park was chosen as a presidential candidate in August 2012, and again by delivering a congratulatory message right after Park won the presidential election on December 20, 2012.

During the September G20 summit meeting in Saint Petersburg, Russia, Park visited Merkel's residence, where she was welcomed with open arms.

Dresden Declaration: Three Point Proposal for Peaceful Unification

President Park received an honorary doctorate from The Dresden University of Technology, one of the top engineering universities in Germany, on March 28 (local time), and delivered a keynote address under the title "An Initiative for Peaceful Unification of the Korean Peninsula: Dresden – Beyond Division, toward Integration." In this speech, she made a three-point proposal to North Korea for the "humanity, co-prosperity, and integration" of the two Koreas.

Park said, "It is when those in the South and the North can understand each other and can get along as people of the same nation that the Korean Peninsula can truly experience renewal as one. Now more than ever, South and North Korea must broaden their exchange and cooperation. What we need is not one-off or promotional events, but the kind of interaction and cooperation that enables ordinary South Koreans and North Koreans to recover a sense of common identity as they help each other out."

Park addressed the possibility of reunification by saying, "Just as German unification represented the inexorable tide of history, I believe that Korean unification is a matter of historical inevitability. For nothing can repress the human yearning for dignity, freedom, and prosperity."

She went on to say, "I believe that just as the Miracle on the Rhine was followed by the Miracle on the Han, so too will unification in Germany be reenacted on the Korean Peninsula."

I believe that the Republic of Korea will similarly reach ever greater heights after unification. The northern half of the Korean Peninsula will also experience rapid development. A unified Korea that is free from the fear of war and nuclear weapons will be well-positioned to make larger contributions to dealing with a wide range of global issues like international peace-keeping, nuclear non-proliferation, environment, energy, and development."

The President urged the North to swiftly give up their nuclear aspirations so that her proposal would bear fruit. She said, "I hope North Korea abandons its nuclear aspirations and returns to the Six Party Talks with a sincere willingness to resolve the nuclear issue so it could look after its own people." She also pledged her support by saying, "Should North Korea make the strategic decision to forgo its nuclear program, South



President Park received an honorary doctorate of laws from The Dresden University of Technology, one of the top engineering universities in Germany, on March 28 (local time).




President Park Geun-hye speaks about her plans for and views of North Korea at Dresden.

Korea would be the first to offer its active support, including its much-needed membership in international financial institutions and attraction of international investments."

She added, "If deemed necessary, we can seek to create a Northeast Asia Development Bank with regional neighbors to spur economic development in North Korea and in the surrounding regions. We could also build on the Northeast Asia Peace and Cooperation Initiative to address North Korea's security concerns through a multilateral peace and security system in Northeast Asia."

When asked if the three point proposal is to be pursued defying the "May 24 Sanctions" that were imposed in the aftermath of Cheonan warship sinking, the Blue House said, "The measures need to be continued until we see North Korea's responsible acts. However, as the separation is prolonged, the gap between the two Koreas is widening; therefore, in stages, we will look into cooperation that will help out the North's residents, based on the South Korean people's general sentiments."

As to North Korea's denuclearization, the explanations went, "Within the realm of observing international regulations, we will examine the possibility of cooperation and providing aid to the North. If there is a tangible progress in terms of denuclearization on their [North Korea's] part, we will spearhead the effort." 

Korea-Australia FTA

Korea, Australia Sign Bilateral Free Trade Deal

South Korea's Trade, Industry and Energy Minister Yoon Sang-jick and Australia's Trade Minister Andrew Robb signed a bilateral free trade agreement (FTA) in Seoul on April 8. The pact will take effect from 2015, if it is ratified by the Australian Parliament and Korea's National Assembly in the latter half of this year. After the deal is ratified by both countries, the Committee on Outward Processing Zones is scheduled to determine specific conditions on the scope, items, and standards of recognizing products manufactured at Kaesong Industrial Complex (KIC) as Korean-made goods.

With the conclusion of the trade deal, Korean companies are expected to benefit from the expansion of demand from the Australian market, and their resource development projects are likely to gain momentum. In addition, KIC products will be recognized as Korean goods in future bilateral trade, which will create new opportunities for local firms to export their products. Unlike the US or the EU, Australia is expected to impose less strict conditions on giving tariff benefits to KIC goods. Therefore, more KIC products are likely to be recognized as Korean-made products.

Under the FTA, Australia will eliminate its tariffs on nearly all traded goods (99.5 percent based on the number of items, 100 percent based on imports) within five years of the implementation of the deal. Korea, on the other hand, is planning to abolish its tariffs on most items (94.3 percent and 94.6 percent) within 10 years.

In particular, Korean autos, the country's main export item, are projected to be the main beneficiary of the agreement, since Australia's 5 percent tariff on gasoline-fueled mid-sized cars (1500 to 3000cc) and gasoline-fueled compact cars (1000 to 1500cc) will be removed immediately. Its 5 percent tariff on household appliances, electronic devices, and machines will also be abolished without delay. On the other hand, the country's 23.4 percent tariff on other imported vehicles and the 5 percent tariff on auto components will be eliminated within three years.


In contrast to the manufacturing sector, however, the local agricultural and fishing industries are expected to suffer. Australia will abolish its tariffs on most agricultural products, but Korea will eliminate its 61.5 percent tariff (based on the number of items) within 10 years. In particular, Korea's tariffs on 509 sensitive agro-fishery products including beef will be removed over 10 or more years. As tariff barriers on Australian beef, which dominates Korea's import beef market with a 56.9 percent share, are going to be reduced, many in the industry think that local stock farmers will suffer as a result.



President Park Geun-hye and Australian Prime Minister Tony Abbott at a joint press conference after a summit in the Blue House on April 8.

In response, the Korean government is planning to establish various kinds of measures to minimize the effects of low-priced imported agricultural and marine products by considering the sensitive nature of the local agro-fishery market. For instance, those imported products are going to be excluded from the concession list. In addition, an agricultural safeguard mechanism is going to be created, and seasonal duties are going to be imposed. On top of that, a system of tariff-rate quotas is going to be created. In particular, the government decided to gradually lower its tariffs on imported beef by 2 to 3 percent per year after the implementation of the deal, and to completely remove those tariffs 15 years after implementation.

Woo Tae-hee, assistant minister of the Office of FTA Negotiations at the Ministry of Trade, Industry and Energy, said, "The Korean government is currently working to establish measures to enhance the competitiveness of the livestock industry and other sectors and to stabilize rural household incomes by considering not only the trade deal with Australia, but also the recently-signed free trade deal between Korea and Canada." He added, "The government will soon create complementary measures in coordination with relevant government agencies such as the Ministry of Strategy and Finance, the Ministry of Trade, Industry and Energy, the Ministry of Agriculture, Food and Rural Affairs, and the Ministry of Oceans and Fisheries."

"Once the FTA is implemented, our trade with Australia and our investment in the country will expand, since Australia's tariffs on automobiles, which account for 25 percent of our total imports, will be removed. Moreover, our exports of home appliances and machines to the nation will increase. Koreans will also be exempt from the examination procedure for an investment of less than US\$1 billion," said President Park Geun-hye during the joint press conference. The president added, "Australia will become the largest supplier of LNG to our country within five years." 

Korea-Africa Sharing

Korea-Africa Economic Cooperation Conference in October



Fifty-four African economic ministers will visit Korea in October this year to discuss economic cooperation with the country. They are planning to publish a joint communiqué with their Korean counterparts on co-prosperity as well.

According to government sources, the Ministry of Strategy & Finance, the Export-Import Bank of Korea and the African Development Bank are planning to hold a Korea-Africa Economic Cooperation Conference (KOAPEC) from October 20 to 23.

The government and the Export-Import Bank invite the ministers along with the governor and the directors of

the African Development Bank, the Secretary General of the UN Economic Commission for Africa, leading entrepreneurs, and press. The total number of participants is estimated at around 1,200, which is the highest in the history of the conference.

The Korean government, since the economic cooperation conference with African financial ministers back in April 2006, has hosted the KOAPEC, a ministerial meeting, every two years for a better economic partnership between Korea and Africa. The latest meeting was attended by ministers from 35 countries under the slogan of Inclusive Growth.

In the meantime, the theme of the conference scheduled for October this year is Economic Transformation for Shared Prosperity. There, Korea shares its economic development experience with the economic delegation from Africa. In addition, they are going to discuss future economic cooperation projects with Korean organizations and participate in seminars for the same goal, while having one-on-one meetings with Minister of Strategy & Finance Hyun Oh-seok. A series of economic assistance programs, investment plans, and corporate projects are expected to come out during the course. **BK**

Korea-Mexico Cooperation

Korea, Mexico Establish New Council for Comprehensive Economic Cooperation

Korea and Mexico are organizing an economic cooperation council for a better partnership. The financial ministers of both countries discussed mutual cooperation in the framework of a council from the second half of this year.

Deputy Prime Minister and Minister of Strategy & Finance Hyun Oh-seok, who is visiting Brazil to attend the annual American Development Bank (IDB) meeting, met with Mexican Financial Minister Luis Videgaray on March 30 (local time) and agreed to the establishment of the council, which is to cover various issues ranging from economic and industrial cooperation to construction, energy, education, information technology, agriculture, and finance.

The Korean government is planning to ask for Mexico's cooperation so that more Korean companies can participate in its national projects in the fields of gas and oil supply, transport, telecoms infrastructure construction, and others. At the same time, it is going to seek measures for more investment and trade in sectors such as electronics, steelmaking, automobile, IT, and transport logistics.

"I hope that the cooperation between Latin America and Korea will lead to a series of tangible results in the private sector as well as the public sector," the Deputy Prime Minister said during his closing speech for the annual meeting. He added, "I am planning to prepare various programs such as the Korea-



Deputy Prime Minister Hyun Oh-seok poses for a picture with Mexican Financial Minister Luis Videgaray after their bilateral meeting last month.

Latin American Business Forum for the IDB General Meeting scheduled for next year, so as to boost economic collaboration in the private sector." The upcoming IDB General Meeting takes place at the BEXCO Convention Center in Busan City in March 2015. **BK**

Bangladesh-Korea Relations

The Complimentary Relationship Has Been Getting More Important



Bangladesh's Ambassador to Korea, Md. Enamul Kabir



Crescent Lake at night in Dhaka, Bangladesh



The relationship between South Korea and Bangladesh has been broadened and getting deeper especially in labor cooperation. They both have a great labor pool, and are cooperating to bring out the best in both countries. Bangladesh's population of 152 million includes a large number of skilled workers in sectors that Korea also has as strengths, and the Korean businesses expanding to the country are finding a fertile workforce. BusinessKorea interviewed Bangladesh's Ambassador to Korea, Md. Enamul Kabir to hear about the two countries' historic ties as well as the future directions that they are headed together.

Would you take this opportunity to explain the significance of Bangladesh Independence Day, March 26?

The 26th of March is a glorious day in our national life. The Father of the Nation Bangabandhu Sheikh Mujibur Rahman proclaimed the independence of Bangladesh at the first hour of the 26th of March, 1971, after the occupation forces launched a sudden attack on innocent and unarmed Bangladeshis on the black night of the 25th. This day marks the beginning of a bloody 9-month-long war and sacrifices made by the people of all walks of life, through which the nation achieved its independence. The day therefore remains a symbol of unity

and resilience of the Nation and its firm stance against repression. Every year, on this day, we renew our pledges to leave behind any social and political division and build a happy and prosperous Bangladesh.

Please brief us on the history of diplomatic and economic relations between Bangladesh and Korea.

Korea recognized Bangladesh in May 1972, within six months of our victory in the War of Independence. Formal diplomatic relations between Korea and Bangladesh were established the following year. Since then, our two countries enjoyed excellent bilateral relations. Both countries share common democratic values. Our bilateral relations are shaped primarily by political goodwill, economic, and commercial interests. Every year visits of a good number of delegations are exchanged.

The visit of the Hon'ble Prime Minister of Bangladesh H.E. Sheikh Hasina to Korea in 2010 at the invitation of the Korean President demonstrates the warmth that exists in the relationship between the two countries.

Bilaterally, our two countries maintain strong cooperation in the areas of trade and investment, development cooperation and technology transfer, employment and human resource development, education and cultural

exchange. Trade volume has been growing gradually and is now nearing US\$2 billion annually. After becoming an aid-giving country, Korea gradually emerged as an important development partner of Bangladesh. Korea supports our development initiatives in fields like telecommunications, energy, transportation, education, and HR development. People-to-people contact has been increasing exponentially. Bangladesh, as you may know, is a partner country of Korea's Employment Permit System, and a good number of Bangladeshi workers are now working in Korean SMEs. More than 500 Bangladeshi students and researchers are now studying in various Korean universities and research centers.

Please tell us of your point of view on what industrial sectors would be the most promising ones for Korean companies to cooperate with Bangladesh as an investor in the near future.

Bangladesh is strategically located for global trade with access to international sea and air routes, and is endowed with an abundant supply of the key factors of production, like a hardworking workforce, natural gas, sweet water, fertile land, favorable climate, and social tranquility.

Bangladesh offers a large domestic market of about 152 million people with

purchasing power continuously growing due to continuous and accelerating growth in national income. Apart from the local market, most Bangladeshi products enjoy duty and quota-free access to the European Union, United States, Canada, Australia, New Zealand, Japan, and other developed countries.



According to a recent comparative study conducted by the Bangladesh Board of Investment and JETRO on the Cost of Doing Business between the competing locations, Bangladesh is one of the most competitive locations, in many indicators, among the ASEAN, Far Eastern, and South Asian countries. There are lucrative incentives for foreign investors like 100 percent ownership, tax and duty exemptions. The FDI-friendly index in the World Bank's report, "Investing Across Borders (IAB) 2010" covering 87 countries, lists Bangladesh as one of the most convenient destinations for FDI for its investment-friendly facilities and regulations. Bangladesh has a unique combination of its competitive business-friendly environment and cost structure that can give an investor the best returns.

Considering the high potential, Goldman Sachs branded Bangladesh as one of the "Next 11" countries after BRIC.

The scope for profitable investment in Bangladesh is enormous, and the list of potential sectors for Korean investment can be quite long. I mention a few of the sectors that Korean investors should keep their eyes on for tapping the opportunity: the high-end ready-made garments sector, textile and home textiles, active pharmaceuticals ingredient and radio pharmaceuticals industry, ICT

products & ICT-based services, ship-building, environmentally-friendly ship breaking industry, agro-based industry/food processing industry, frozen fish industry, jute-based industry, leather industry, PPP-based large infrastructure (roads, bridges, airports, township, ICT infrastructure etc) projects, renewable energy sector (solar power, windmills), tourism and hospitality sector, polymer-making industry, hospitals and clinics, automobiles, electrical home appliances, and the light engineering industry.

Please introduce outstanding Korean companies' activities in Bangladesh.

Hundreds of joint ventures or full ownership Korean firms are operating outside Export Processing Zones (EPZs) in Bangladesh. More than 80 Korean companies have set up their operations units in EPZs in Bangladesh as well. These companies are operating in the sectors like ready-made garments, textiles, glass and ceramic, leather garments and footwear, RMG accessories, chemical products, electronics, IT, and construction materials, and creating employment for our people.

The largest of the Korean Investors in Bangladesh is Youngone Corporation. It is operating in Chittagong EPZ in the fields of RMG, RMG accessories, footwear, and leather goods, and is employing almost 50,000 people. Apart from that, Youngone is trusted with developing a private export-processing zone, the first of its kind, in Chittagong, Bangladesh. Dada Ltd., Pacific Zipper, and the HHH accessories industries are few too many to mention.

Samsung Electronics has established a research center in Bangladesh where several hundred engineers and researchers are working. Samsung reportedly has a plan to establish a factory in Bangladesh to produce electronic goods in the near future.

The presence of Korean companies in the construction and infrastructure sector is also noticeable. Hyundai Engineering and Construction Co. Ltd. constructed the 4.8 km-long Bangabandhu Bridge on the Jamuna river, which is


the largest bridge in Bangladesh. Two Korean companies, along with one Chinese firm, are on the short list for the construction of the even longer 6.15 km bridge over the River Padma. Korean companies are actively participating in power generation and transmission projects as well.

Please introduce Bangladesh tourist attractions for Korean tourists.

Bangladesh has a host of tourist treasures to offer to international tourists – beaches, lakes, rivers, hills, forests, wildlife, our way of life, tribal life, archaeological remains including historical monuments, folklore, religious and cultural heritage, handicrafts, and much more. All these combined are enormous tourist products for international tourists and if properly exploited can fetch the country its due share of the ever-expanding global tourist trade.

Cox's Bazar is the tourist capital of Bangladesh, where miles of golden sands, towering cliffs, surfing waves, colorful pagodas, and delightful seafood bring tourists year-round. Located in the southeastern part of Bangladesh by the Bay of Bengal, this is world's longest unbroken beach, stretching up to 120 km.

The largest mangrove forest on earth and the home of the majestic Royal Bengal Tiger - the Sundarbans – is a major eco-tourism attraction of Bangladesh. About 6000 of deltaic swamp along the coastal belt of Khulna, the Sundarbans is also the natural habitat of spotted deer, crocodiles, monkeys, cheetahs, pythons, wild boars, hyenas, and many different species of colorful birds.

Archaeological sites are in no dearth of supply, either. There are ruins of Buddhist monasteries dating back to the 3rd century B.C. at sites like Mahasthangar, Paharpur, and Mainamatai, which are of enormous interest to archaeologists, historical enthusiasts and cultural and educational tourists alike. Dhaka has a number of buildings from the Mughal and British periods. Similarly, some old mosques like the Satgambuj mosque of Bagerhat and some old Hindu temples like the Kantaji's Mandir deserve mention. 



Regulation Armageddon

2,200 "Regulations like Cancer Lumps" to Be Excised

The Korean government will abolish 2,200 economic regulations, amounting to 20 percent of the total, by 2016. It will also implement a British style regulation ceiling system, "cost-in, cost-out", from next year, to keep new regulations in check.

A meeting chaired by President Park was held among policymakers and private-sector experts and produced a report, "Regulatory Reform Policy," to cover the agenda. The Office of Government Policy Coordination under the Prime Minister's office revealed that it will reduce the 15,269 currently registered regulations to 13,069, which is about a 20 percent drop, by 2016.

For starters, the government will target 11,000 economic regulations to reduce them by 10 percent (1,100) this year, by assigning quotas to each related department depending on the departmental characteristics. The departmental outcome of the regulatory revamp will be disclosed at the end of the year.

Park stressed the importance of the regulatory reform, saying, "Deregulation serves a double purpose: not only the key to economic innovation and renewal, but the basis for serving and supporting economic principles in an endeavor to challenge them."

The government also decided to extend the "sunset" system, which allows regulatory effects to last only a limited time or to be re-examined as to their existence, from 12 percent (1,800 cases) to 50 percent (7,500 cases).

In addition, a British style cost-in, cost-out system will be implemented to its full extent from next year, to monitor newly created regulations. The system aims at putting a ceiling on the overall cost of regulations by abolishing existing regulations on a cost basis to make room for any new ones.

The system will be launched full scale from January next year, after a test trial on seven departments including the Ministry of Land, Infrastructure and Transport, the Ministry of Environment, and the Small and Medium Business Administration

in July this year. Also, on all new regulations from April, it will apply a "negative list system" and a "sunset" system. The negative list system only allows listed regulations and policies, barring unlisted or exceptional ones. And under the sunset system, all regulations automatically expire in five years. These systems will first focus on new businesses or new industry/technology segments, to induce investment in private companies.

During the meeting, diverse opinions were pouring in from the economic section. The Korea Chamber of Commerce and Industry's Chairman Park Yong-man proposed, "The biggest problem is complex regulations, as they cannot be addressed by a certain department. Majority cases like factory expansion or new business launches get hampered by complex regulations. Thus, it is vital to build an inter-departmental system to cope with complex regulations."

"We need to stress that regulatory reform is undoubtedly for creating jobs. In the past, priorities were put on investment size or profitability, but now we should put employment first," added Chair Park. He urged to re-examine everyday regulations and gave examples such as how up until recently, any rice cake delivery services were banned, whereas pizza delivery services were not, and how installing Active X and accredited certificates interfered with the online purchases of Hallyu products.

Lee Seung-chul, vice chairman of the Federation of Korean Industries, also emphasized that "Active X is a unique regulation in Korea that is a necessary evil for identification and payment. But because of this, in China, it is impossible to buy Chunsongi coats which went viral on the back of Hallyu."

President Park reiterated, "Bad regulations and practices are the main culprits of the lower productivity of domestic companies and lower foreign investment. These hurdles need to be stripped away without hesitation, to create more jobs for the young, venture companies, and women, and to achieve 3-year economic innovation." 

Social Conflicts

Driving Korea to Inefficient Resource Distribution, Huge Social Costs

Each weekend in the plaza in front of the Seoul City Hall, a rally is staged by left-wingers who demand the resignation of President Park Geun-hye and National Intelligence Service Chief Nam Jae-joon, along with the release of Unified Progressive Party lawmaker Lee Seok-ki under suspicion of rebellion. At the same time, on the other side of the police line, another group of demonstrators stand under banners reading “Eradicate the pro-North leftist force.”

This shows how deep the ideological rift is in Korean society. The cracks are not limited to ideological ones, but have long been present in various forms between labor and management, rich and poor, young and old, ethnic Korean and multicultural families, etc. Sociologists point out that the simultaneous conflicts are blocking the efficient distribution of economic resources, and incur social costs of approximately 25 trillion won (US\$24.2 billion) a year, which is equivalent to 17 percent of Korea’s nominal GDP for 2013. They also say that the Park Geun-hye government will have hard time getting to its per capita GDP goal of US\$40,000 unless it deals with these conflicts in an effective way.

According to the OECD, Korea recorded a social conflict index of 0.72 in 2010, the second-highest among the 28 countries surveyed. The top dishonor went to Turkey, which has gone through hundreds of years of religious conflicts to post an index of 1.27 in that year.

Another problem of the Korean society is distrust. In the 1990s, Korea ranked 11th, with a below-average point of 0.3, out of the 19 OECD member countries where Social Trust Index surveys were carried out. Both the point and the ranking remained as they had in the 2000s, although the OECD average rose slightly to 0.36. More recently, the Korea Institute of Public Administration



Thousands of protesters hold candles to show solidarity against the importation of U.S. beef in May 2008.

(KIPA) reported two years ago that the wealth divide was the most severe type of social conflict in Korea, followed by labor-management disputes, regional conflicts, and ideological differences.

Two of the most fundamental reasons for the intensification as of late are the spread of democracy and the slowdown of economic growth. Rapid economic growth used to override social conflicts before the 2000s, but discontent began to be voiced from various social classes with the speed of economic growth falling. In addition, the development of democracy has allowed the people to assert their rights more aggressively.

The feud between the haves and have nots can be attributed, above all, to the former’s lack of transparency during the course of wealth accumulation. “More and more Koreans do not think they can be rich no matter how much they work,” said Eun Jae-ho, head of KIPA’s Social Integration Research Office.

In the meantime, labor-management disputes can be ascribed to poor social safety nets. “At present, the maximum unemployment compensation is 40,000 won per day, and this amount is petty when compared to a basic salary,” Yang Jae-jin, director of the Institute of Public

Affairs of Yonsei University, explained. He continued, “Besides, the grant is temporary, so employers and employees have ever-intensifying conflicts over many labor issues such as restructuring.”

According to the Samsung Economic Research Institute, the national economic losses derived from such disputes amount to 246 trillion won (US\$237.6 billion) a year, which is equal to 17 percent of the nominal GDP for last year as stated above. This implies that the Korean government can boost the country’s GDP by 17 percent if it succeeds in addressing the conflicts.

Experts also ask for well-designed policy for a perfect balance between growth and distribution. “The social conflicts can be alleviated only when the government adopts the approach regarding distribution as another form of investment,” Dr. Lim Hee-jeong at the Hyundai Research Institute commented. Korea’s ratio of public social spending to GDP stood at 7.6 percent in 2010, ranking 33rd on the list of 34 nations, while OECD member countries recorded an average of 19.2 percent. The government would be well advised to focus more on the distribution of wealth so that it can better address the widespread social discontent and climb at least some notches on the list. ■

Evangelist of Happiness

Providing Forest Welfare While Sharing Experience with Developing Nations



Korea Forest Service Minister Shin Won-sop.



KFS Minister Shin Won-sop (right) and Win Tun, minister of Myanmar Ministry of Environmental Conservation and Forestry (left), sign an MOU for mutual cooperation on April 8 2014 at the government complex in Daejeon City, Korea.



Minister Shin Won-sop (left) and Zulkifli Hasan, minister of Forestry of Indonesia (right) shake hands to boost eco-tourism on July 4, 2013 in Hambalang, near Jakarta, Indonesia.

As the new concept of forest welfare is emerging, the Korea Forest Service (KFS) is ironing out various programs for the development of leisure culture and welfare services for the public, while setting up diverse infrastructure for them. As part of these efforts, the KFS has established and opened forest information databases to the public, providing various forest welfare services.

Externally, the KFS has tried to boost investment in developing overseas forest resources while sharing Korea's afforestation experience and know-how with developing nations for their anti-desertification and afforestation projects.

Business Korea sat down with KFS Minister Shin Won-sop to hear about his efforts to increase public happiness through forests, and his endeavor to expand cooperation with countries with rich natural forest resources. The following are excerpts from the interview with Minister Shin.

What is the background and purpose of the Have Your Own Tree

Campaign?

The campaign was launched to celebrate the 69th Arbor Day and capitalize on it to promote the importance of forests, and encourage more people to plant trees.

This year, more than 1.2 million trees were planted in 170 places around the nation during the campaign period, under the slogan of "Planting Trees, Creating the Future of Korea." Also, approximately 400,000 more trees were planted, mainly in urban areas, on and around this year's Arbor Day.

The 130 or so Tree Markets contributed greatly to the success as well. Tree Market information is available on the official website of the Korea Forest Service.

The new concept of forest welfare is emerging these days as a new form of social demand. Please explain more about this idea.

Nowadays, social conditions are changing rapidly and people are getting more and more interested in the health-

care, cultural, and healing elements that the forest can provide. Specifically, the various effects of just walking in a forest, such as stress relief and the relaxation of the body and the mind, are attracting urban dwellers to nearby forests.

You can enjoy a variety of healing effects, both physiological and psychological, by just visiting a forest. Focusing on this aspect, an increasing number of organizations are making use of the natural resource in diverse fields like preventive medicine, personality education, and the treatment of chronic diseases.

At the same time, the number of those returning to farming is on the rise, too. A laid-back third-age life in a rural or mountain village is increasingly popular with retirees.

What does your ministry do for a better utilization of arboretums and botanical gardens?

We are trying to provide better services for the general public by enhanc-

ing the educational and sightseeing functions of the resources.

A total of approximately 12,333,000 people visited the 44 arboreturns and botanical gardens nationwide in the single year of 2013, which is equivalent to 25 percent of the Korean population. The number increased to 27.7 percent when compared to the 9,655,000 recorded in 2009.

The Korea Forest Service has supplied a series of educational, hands-on programs in the facilities so as to satisfy cultural needs and help visitors raise their living standards and make better use of their leisure time. These programs will be more specialized and systematized over time.

Additionally, the Korea Forest Service will set up diverse infrastructure so that these facilities can assume greater social, public, and cultural roles, and act as a leading platform in the education, culture, and tourism sectors.

What is the definition of Forest Administration 3.0 and its action plans?

Forest Administration 3.0 can be defined as an effort for the national forest administration system to revolve around people, with the core values of government – that is, opening, sharing, communication, and cooperation – incorporated into the entire process of the forest administration.

In this framework, we have opened our forest information databases to the public, while working together with other ministries and organizations to back up forestry employees and providing various forest welfare services.

This year marks the second anniversary of Forest Administration 3.0. We will bring out more tangible results this year so that the general public can feel and experience the new way of forest administration. Specific measures to this end include life-cycle tailored forest welfare services and the customized training of future forestry employees for job placement. We are planning to select 10 major tasks in view of the public demand.

Plus, the private-public cooperation will be enhanced throughout the entire

course of forest administration so we can better communicate with the people. Online policy discussion opportunities are planned to be expanded for Web users' greater participation and offline channels for intercommunication, such as the Forest Patrol, will be diversified.

The Korea Forest Service is in collaboration with many international organizations and governments. Please give some typical examples.

Korean companies are striving hard to develop overseas forest resources so as to procure lumber resources in an economical and stable way. In detail, 31 companies entered 13 countries like Indonesia, Vietnam, and Uruguay between 1993 and late last year to create forests as wide as 314,000 hectares. Such afforestation efforts are to provide against increasing demands for lumber resources like pulpwood and wood pellets by means of supply source diversification.

Another trend is the diversification of investment destinations from Southeast Asia to the Oceania region and Latin America, and the diversification of investment purposes to cover biomass, new and renewable energy, and carbon emission rights.

In order to boost the investment, we have shored up our cooperation with countries rich with natural resources while injecting more policy funds than before. In addition, our staff members have been sent to those countries for the support of investment projects. 103 such internees have been dispatched between 2009 and 2013, and the number is scheduled to be 33 for this year.

At the same time, we are trying to make the most of the Korea-China FTA to open up the Chinese forest market. We are well aware of many people's concerns that the free trade deal is likely to affect the forest industry of Korea. We are doing our utmost to protect major forest products as highly-sensitive items. Forest product export complexes will be built in China, targeting local high-income earners, and more export channels will be prepared to minimize the potential negative impact of the Korea-China FTA.

In the meantime, we are sharing our afforestation experience and know-how with developing nations. We are taking an important role in dealing with the desertification of Africa and moving ahead with anti-desertification and afforestation projects in China and Mongolia to provide fundamental solutions to the ever-growing problem. It is in this vein that the Korean government took the lead in launching the Asian Forest Cooperation Organization, whose goal is to cope with forest-related problems in Asia.

What are your organization's key projects for this year?

We will continue responding proactively to the Korea-China FTA negotiations, which are sure to have a huge impact on the forest industry of Korea, and seek ways for enhancing the competitiveness of the sector.

At present, the second round of negotiations is underway surrounding some specific items and talks are expected to be wrapped up by May. We are mobilizing our resources so that forest and wood products can be included in the category of highly-sensitive items.

Also, we will try to make up for the losses on the part of forest farmers, which could be incurred by the FTA, while putting efforts to turn the crisis into an opportunity by different strategies for higher added value creation.

Further, we are going to put forth a better job creation and forest welfare policy so the people can feel greater affinity with the forest. Relevant laws are to be enacted for systematic creation of forest jobs, and 250 million won [US\$241,250] is invested in business consulting for social enterprises in the field of forestry. 50 million won [US\$48,250] has been earmarked as subsidies for such social enterprises, too.

We are currently in the second year of the Comprehensive Forest Welfare Plan 2013-2017. We will enhance both the qualitative and quantitative sides of the national plan, along with our life-cycle forest welfare policy, so that such endeavors can be better accepted and sympathized with by the general public.

Wage System

Labor Ministry Urges Companies to Base Wages on Performance, not Seniority

The government is urging the private sector to simplify the wage system to focus on base salary and job performance/function rather than seniority. It also advised expanding the weight of bonuses linked to performance.

The Ministry of Employment Labor published “Rational Wage System Reform Manual” on March 20 and distributed it to municipalities and major business locations. It announced its intention to support management and labor to revamp the arbitrary wage system based on the manual, adding that it will apply a specific model by industry and modify the manual gradually via consultation. A company’s wage system is basically determined through negotiations between labor and management. Nevertheless, the government’s guideline this time was ironed out because the conflict between labor and management has been growing, with the introduction of the retirement age extension and wage peak system, stemming from an aging society and continuing labor management disputes over what constitutes ordinary wages.

First of all, the manual suggests simplifying the wage structure by focusing on base pay, merging regular extra pay and bonuses into one base pay rate. This is because the current wage system has a lot of room to create controversy due to its convoluted way to award extra pay.

It has also been pointed out that the current Korean wage system is predominantly based on seniority, where the wage is proportional to the number of years put in at work. This system should be restructured to a performance/function based system. According to the labor ministry, 71.9 percent of compa-



Laborers of a foreign invested pharmaceutical company demonstrate on April 3 in front of the headquarters building, demanding a performance-based additional payment which was given to non-regular employees, but not to regular employees themselves.

nies with a payroll of more than 100 adopt the seniority system, and bigger companies are more likely to employ the system. But under the current system, the wage gap between employees of different seniorities in Korea is higher than that of other countries. For example, a manufacturing wage earner with 30 years of seniority earns a wage that is 3.3 times larger than that of a novice, which contrasts with 2.4 times in Japan, 1.97 in Germany, and 1.34 in France, indicating that the gap in Korea is much higher than that of advanced countries.


A representative of the ministry explained, “The seniority system cannot work in an aging society with a retirement age of 60, and has bad side effects such as companies being reluctant to hire young employees or adopting an early retirement system in the form of voluntary retirement.”

In the meantime, labor and management are showing mixed responses to the new wage reform manual. One person from the Federation of Korean Industries says, “The wage system reform was sorely needed to cope with impending issues such as ordinary wages and work hour reduction, and the manual was timely.”

However, it should be noted that the government’s guidelines are not legally binding. Fundamentally, the wage system is set through negotiations between

labor and management in companies. “Wage system reform was an imminent task, and it is advised that labor and management refer to guidelines to voluntarily reorganize their own wage system,” said Park Wha-jin, general director of the labor-management cooperation bureau at the Labor and Employment Ministry.

In contrast, the Korean Confederation of Trade Unions decried the manual saying, “The manual is full of bias, as it tries to secure the employer’s profits by cutting into senior employees’ wages. According to the government, first they should dock civil officers’ wages, because civil officers are guaranteed incrementing wages until their retirement age.” Another and more tougher Democratic Confederation of Trade Unions said, “In one word, the manual’s intention is to disseminate a low wage system and to cut senior employees’ wages more and more,” adding, “As older workers tend to predominate the labor market, the reform manual tries to intensify work competition and performance.”

In response, Lee Jang-won, head of the wage-task center at Korean Labor Research, puts, “There is no reason to stubbornly oppose the reform, since its purpose is to ensure giving similar wages to workers at small and medium-sized companies and irregular workers, as long as they perform similar work.” 

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KakaoTalk Offers Rare Sight of True Innovation

KakaoTalk Offers Rare Sight of True Innovation



It may be hard to believe that the country with greater than 100 percent smartphone penetration was late to the smartphone scene, but South Korea didn't receive their first smartphone until late 2009. But after digesting that fact, it will not be difficult to believe that KakaoTalk, the most popular smartphone instant messaging application in the country, is used by 93 percent of the population. However, the total number of users of KakaoTalk is almost 3 times that of the population of Korea. With 130 million reported users in December 2013 and rapid growth, the company is doing something right.

Veiled in the Mists of Internet Past

The company began way back in the distant past of 2006, before there even were smartphones. It had an auspicious birth as the child of former NHN executives JB Lee and Brian Kim. NHN is the company running Naver, one of the two most popular Internet portals in South Korea. Brian left when the company was getting to be around the size of 3,000 to 4,000 employees. He had held the position of CEO of NHN USA, and before that he was the founder and CEO of Hangame, a successful gaming company that had merged with Naver.com to form NHN. But he liked growing a small company up from humble beginnings, so he bowed out and formed Innovation With Internet Lab, or IWILAB.

From 2006 to 2009 IWILAB worked to try to create a book-

marking site called Buru.com and a social ranking service called Wisia.com. Unfortunately, the two were not successful. When the smartphone came to Korea in 2009, the company latched on to this new platform in a last-ditch effort to hit on a successful product. Sirgoo Lee said about that time, "We decided to give it a last shot before we closed up shop." They split into 3 teams and developed 3 smartphone applications. The first was a public communication service similar to Twitter, called Suda, which means chatter in Korean. The second service was named Agit, Korean for hideout, and focused on private group communication. The third was a multi-user group chat service the company termed KakaoTalk.

The name of the service is unique, and has a story behind it. The Kakao founders hoped that their communication service would bring people close and increase their quality of life, and so they wanted to name their service after something else that increases quality of life already. The team fixated on chocolate, but decided that simply naming their app "Chocolate" would not work. So they picked out chocolate's key ingredient, the cacao bean, and from there eventually arrived at the term KakaoTalk.

After just two months it was obvious that KakaoTalk was the most popular service out of the three, so the company abandoned the other two projects and focused exclusively on KakaoTalk. Sirgoo Lee said of the group chat rooms, "That was one of the main features that the users really appreciated. And

then in the chat room itself, if you sent out a message there's a number beside the message, which indicates how many people in the chat room haven't read your message." That was one of the best features that really attracted users, according to the company, and really made it stand out. The feature is still quite distinctive among messaging applications.

After that first good beginning, the company added several other features that attracted a lot more users in a short amount of time. These features included font size options, being able to edit the names of individual chat rooms, and animated emoticons. These features were so popular with users mostly because they were suggested by the users themselves. Mr. Lee said, "We are really evolving the service based on what users want and so we are constantly listening to their needs." This has been a guiding principle for the service from the beginning, and one of its greatest strengths.

KakaoTalk expanded its services in four major ways in 2012. In March they introduced KakaoStory, and in July there came Kakao Game and Plus Friend. Last, the company created the KakaoTalk Gift Shop.

KakaoStory was an expansion of KakaoTalk into Facebook's and Google Plus's user profile space from the other way round. Where Facebook originally started as a way to share photos and status updates with your friends and then later included real-time chatting, KakaoTalk started with the real-time chatting and expanded to include photos and status updates. Using profile backgrounds, photos, stickers, messages, friends lists, and all the trimmings of a social network, KakaoStory gained 10 million users in 9 days.

Kakao Game was also a good move for the company, because two months after its launch in July 2012, the company finally began to turn a profit. The appeal of real-time group chat rooms combined with competitive online games was undeniable. Kakao Games encourage group cooperation and competition both – your friends who are also playing the game can send you items that you can use to play better, or longer. But the scores of your friends are also shown on a progress or score board within the game, so the urge to beat your buddy's latest high score is always present. As Sirgoo puts it, "It has been a year and a half since we launched games on KakaoTalk, and the accumulated revenue has reached in excess of 1 billion dollars."

The other two additions to KakaoTalk, Plus Friend and KakaoTalk's Gift Shop, are innovations in online marketing. The bane of the Internet is online advertising, and even now people can still remember the dark days of flashing, intrusive banner ads begging you to shock a monkey. KakaoTalk took the needs of advertisers and melded them into the social network of its users



Kakao partners with Korea's top idol group BigBang to market their products in Malaysia.

in a unique way – by giving advertisers a Plus Friend account. Users who are interested in some product or service can become a Plus Friend of that product or service, and receive information and exclusive offers in a chat channel much the same as you would get with an actual friend. The Gift Shop is another innovative online marketing tool. In it KakaoTalk users can send coupons for Starbucks coffee or even jewelry to their friends, allowing them to be generous and share products that they enjoy at the same time.

Flush with the Success of the Present

KakaoTalk now stands at over 130 million users worldwide, at the brink of an IPO in 2015, and with 550 employees. The company believes that its guiding principles and unique corporate culture are the keys to its success so far. "We think it is very important to keep a culture where we encourage debate, where we encourage free communication," says Sirgoo. "It's worked pretty effectively until now."

In Korea's Confucian-based culture that emphasizes hierarchy and unequal relationships, Kakao stands out as a champion of an open, horizontal work culture. The offices themselves illustrate this, as big rooms full of desks without many dividers or closed spaces. Sirgoo Lee, co-CEO, sits just a few desks down the row from Sonia Im, PR manager, for instance. Also, each person at the company adopts an English-language first name, and everyone else refers to them by that name. This is done to sidestep the titles and honorifics that are so common in Korean-language workplace communication. It can take some getting used to for new hires at the company, but most quickly learn to appreciate the freedom in communication and action that it brings. The founders of Kakao believe that this type of horizontal workplace environment encourages innovation. Communication is further encouraged through Kakao's in-house communication system, Agit, a web forum in which everyone in the company can see and comment on the Agit pages of

other teams. This both lets employees in the company know what everyone else is working on, and gives another avenue for feedback, increasing transparency and communication.

Kakao's total app offerings are divided into four categories now. There is the social platform, the content platform, the commerce platform, and the marketing platform.

As described by the company, the social platform is Kakao's greatest asset. It consists of KakaoTalk, KakaoStory, and KakaoGroup, and is the core foundation for all other platforms. The nation's number one mobile messenger, KakaoTalk, and the number one mobile SNS service, KakaoStory, have attracted tremendous traffic and a tightly integrated social network. These assets are now pioneering the development of a mobile social platform that enables not just the exchanges of everyday life but of valuable information and content. Kakao will continue to experiment with new social platforms such as its latest group communication service KakaoGroup, to develop new social platforms handing users a richer and more convenient mobile life.

The content platform includes KakaoGame, KakaoMusic, and KakaoPage. Through Kakao's game, music and digital content platforms, users can now share and enjoy music, books, comics and games on mobile, all with their very best friends and family. Kakao's game platform, now offering more than 380 titles, initiated a new global trend of combining social games with a mobile messenger. Through music sharing service KakaoMusic and digital content marketplace KakaoPage, Kakao continues to expand the mobile content ecosystem to provide greater value to the users. But more importantly, Kakao fosters the spirit of co-existence, by functioning as a stepping-stone for the growth of the mobile content industry.

The commerce platform, in Kakao's words, strategically combines e-commerce with mobile messaging to enable a new form of consumption for users. Kakao Gifts has brought forth a new consumption trend that delivers not just 'items' but also emotional affection in the form of gift coupons. The range of offerings has expanded from its initial offering of coffee, food and beverage, and convenience store coupons to accessories, cosmetics, digital items and various household items, all of which users can conveniently send to friends via KakaoTalk. KakaoStyle, another commerce platform that has opened up new mobile commerce channel for online shopping malls, is creating a new approach to mobile shopping allowing users to share style opinions and information with friends.

Finally, the marketing platform includes Plus Friends and Brand Emoticons. Straying from conventional, intrusive marketing methods, Kakao offers a new genre of marketing that is informative, fun, and optimized for mobile. Plus Friend allows users to choose to receive exclusive news and updates from brands/companies of their choice upon their own will, and Brand(B2B) Emoticons offers brands a fun way to increase their brand awareness through distributing branded emoticons that users can apply to make their chats more fun. Kakao's new marketing platform has been recognized for its effectiveness




KakaoTalk offers cute emoticons that make your messaging experience more fun.

and innovative approach, and is being benchmarked by large players around the world. Kakao continues to experiment and challenge itself with new, innovative and effective mobile marketing platforms.

Letting the Users Choose the Future

Kakao is looking to expand into the rest of Asia this year. The company has begun a full-fledged operation into the Southeast Asian market of Indonesia, Malaysia, and the Philippines, through aggressive localization and mass marketing strategies. These efforts were met with positive results in these countries, with KakaoTalk taking the number one spot in both Google Play and App Store free applications in Indonesia last April. With more than 120,000 subscriptions per day, the service showed notable growth. The app also took the number one spot for social/communications applications in both markets in the Philippines and continues to show steady growth.

Kakao is leveraging mass marketing and localization as its key strategies in entering new markets. Kakao aired TV ads in target markets with BigBang, a top Korean idol group, and a popular, local, female singer of each region as KakaoTalk ambassadors, in effort to help enhance awareness of KakaoTalk to each market. Kakao continues to showcase subsequent TV ads with local stars as KakaoTalk ambassadors to approach users of each region in a more intimate manner.

When asked what is next for KakaoTalk, Sirgoo says, "We evolved the service based on customer feedback. So we really don't know which way its going. It started out as a messaging service, but now it has grown to a mobile platform with advertisement, games, music, all sorts of different things. And so its really hard to say, but I think there's a lot of things that people want to share with their friends through this mobile device. So really, the sky's the limit." 

Innovative Interview

A Corporate Culture that Encourages Debate, Innovation



Sirgoo Lee, co-CEO of KakaoTalk

Sirgoo Lee is co-CEO of Kakao Corporation, alongside JB Lee. He has previously been the CEO of NHN USA, and is a lawyer by trade. BusinessKorea spoke with him about the history and future of KakaoTalk and his insights into the smartphone instant messaging market.

All 3 of the executives of KakaoTalk are from Naver or NHN, right? Is that where you all met?

I met Brian when I joined NHN in May of 2004. He was at the time the CEO of NHN. And I joined as the general counsel. That was my initial contact with Brian. He left in 2006 to form the predecessor of Kakao, which was IWILAB. He invested in JB Lee, who is the co-CEO of the company. And so really Brian and JB are the founders of the company.

So now your company is quite successful. I've been told you have about 550 people? Do you think this is quick growth?

Very fast, yes. When I first joined 2 and a half years ago, we weren't quite 100 employees. So we're kind of doubling each year. And that's what happened at NHN. Those of us who came from NHN and those of us who were there at the early days of NHN, it's kind of like déjà vu – the same kind of growth issues coming up..

You have a corporate culture in which everyone just uses first names; everyone treats each other as equals,

there is no acknowledgement of age or rank. Is that something that you brought from NHN?

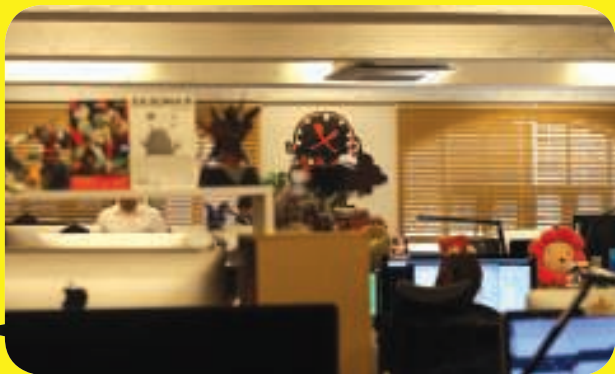
Actually, Brian started that. He was the first head of NHN USA, and in the US everybody goes by their first name, especially in the IT industry. The culture is very flat. I think he really liked that. So when he started the company back in December 2006, that is one of the points that he wanted to set in from the beginning. But, of course, being a company, you do need hierarchy. Somebody needs to make decisions, somebody needs to have authority. But then the communication culture has to be flat, has to be non-authoritative. Because the mobile industry is something very new, nobody has experienced this industry. A new employee may have a better idea than the management team. So we think it is very important to keep a culture where we encourage debate, where we encourage free communication. It's worked pretty effectively until now.

Have there also been any disadvantages in using this kind of culture?

Old folks like me, when we join the company, we have to prove ourselves, we have to prove who we are. Whereas before, if you're a senior, you have that title behind you to back you up. When you first meet somebody in the company they immediately recognize your status and pay respect to that. I joined the company as Vino. Vino has to explain and show everybody what he can do and what his abilities are. For those who aren't comfortable with that, we've had a few employees leave the company because that really didn't suit them. But that is one of the major attraction points of top talent who like this kind of culture, who are very creative and don't mind being treated that way.

How much would you judge your success as being based on your unique corporate culture?

I think a lot. Because a lot of great ideas, the way we work, came from that open culture. Most of what we do service-wise comes from our users. We value user input very much, and new features and new services come out of that. And likewise within the company a lot of new ideas of how we operate as a company, how we form our culture, comes from our average employees, rather than top-down.



Kakao's offices are open spaces free from hierarchy where everyone sits at the same kind of desk.

There are also a lot of other companies that you partner up with for the additional services that you have. How do you choose which companies to participate in these different programs?

The quality of the service they operate or the content that they offer. That's very important to us. When we make the decision on who to partner with, we're making that decision based on what our users would like in that service. So we're very particular, we're very picky in what we choose. It has to be the best of the best. In some instances that has caused a lot of debate, especially with games, because in the early years when we launched a game on KakaoTalk it became very successful. Those who cannot get in are very disappointed, so we have to explain to them why they weren't selected vis a vis the games that were selected. Some are very subjective decisions, but our focus is always from the viewpoint of the users, what the users will like, and then it's always quality.

So there are companies – games or perhaps plus friends – that you have decided to not go with?

Plus Friends is a slightly different model where we do have content partners with plus friends, for instance Girls' Generation, or other different content. But with the advertisement model, those are paid partners. They pay us an advertisement fee, so they can use plus friends as an advertisement platform. We do have a screening process where we don't allow certain types of advertisement. But as long as there are people who are interested in that product or service, for a fee, you can become a Plus Friend.

Which one of these services has been most profitable for you?

Up until now, games. It has been a year and a half since we launched games on KakaoTalk, and the accumulated revenue has reached in excess of 1 billion dollars. We take a share of that 1 billion, but it's become a huge success financially. And that makes up a huge chunk of our revenue. Also Plus Friends is becoming a steady revenue stream for us, because it is a very targeted advertising model where it is an opt-in type of service where the user

chooses what type of product or service he or she is interested in. So you don't have to do market research, you don't have to target a specific audience. You just open up your Plus Friend channel, and then your users get to select it. So you can send them targeted messages. Whereas, if you send out mass messages that becomes spam.

Do you think the criteria that you use for games have also contributed to your success in the games market?

I think so. There're definitely good games and bad games quality-wise, and so we do have a screening process. In the early days we had very strict criteria where we only accepted around 20 percent of the games onto the platform. Now we've kind of opened up the door and allowed more games to be on our platform. We're now letting our users choose which game they want to play.

What plans do you have for expanding KakaoTalk? New services and features planned for the application itself?

We've now announced that we're going to enable people to send and receive money through our application, and so who knows what's next?

How is the money transfer going to work, especially in light of government-mandated security protocols in Korea?

The regulations apply to the banks, and so we really don't have to deal with the technical issues. Of course we're very mindful of security, but the actual transfer of money is done at the back end, through the banking system, between banks. We offer just a platform for identifying who is sending money to whom. So we don't collect financial or personal information. That is matched up with the banking system service, so money is transferred from one bank to another, which is done every day right now so there are no security issues there.



Sirgoo Lee, co-CEO of Kakao Corp, gives a keynote address at the Mobile World Congress 2014 in Barcelona, Spain on Feb. 24.



So it's not the Paypal model, where Paypal is acting like a bank?

No, we're going to start with sending and receiving money, a very humble start, and then we'll see how that goes. Maybe one day we can get to the point where we're buying products, doing monetary financial transactions through our application. But the plan right now is... it seems like a simple idea, right? Sending and receiving money. But that entails a lot of issues, because you have to have all 16 banks in Korea work together on one platform, so it's taken a long time to convince the banks and have the interoperability of the banking system to be working.

Then what kind of plans do you have to expand the company and the user base?

I think we've probably cornered the market in Korea. 93 percent of all smartphone users are KakaoTalk users. There is that 7 percent, but I think they've made a conscious choice not to use KakaoTalk.

The natural choice is to expand overseas, but unlike Line or WeChat, we are a very small company with very limited resources. So we're focusing on specific regions or countries. We're focusing now on Indonesia, the Philippines, Malaysia – countries in Southeast Asia where Korean content is popular and recognized.

It was a Malaysian company that bought your pre-IPO stock, correct?

Yes. They are our partner in Malaysia. We're doing a partnership in Malaysia whereby they're doing all the marketing of the application in Malaysia. The gentleman, our partner and the owner of the Berjaya Group, also owns an English premier league soccer team in Cardiff City. So he said, "Would you like to do some marketing in the UK?" and we said, "Why not?" and one day I wake up one morning and everybody's talking about the advertisement of KakaoTalk on a college city soccer match. And this gentleman was very interested in making an investment into KakaoTalk. He purchased shares of the company back in January.

So does that mean that Malaysia is the number one priority for expansion?

The three countries we're focusing on are Indonesia, the Philippines, and Malaysia. In Indonesia we're doing marketing by ourselves, we have a team of 12 people on the ground in Jakarta. Malaysia is also one of our focused markets, but we've left that up to a company called Friendster, which is a subsidiary of the Berjaya Group. So all 3 countries are very important to us. We think that it's in the early stages of the smartphone revolution. And people there are very interested in using services like us.

So do you still consider yourself to be a small, flexible startup?

Up until now, yes. The culture is a very startup culture still. Although WhatsApp only has, what, 16 employees? We are much larger than that, but we are doing a lot of other things, whereas WhatsApp is focusing on text messages. We're expanding this into a mobile platform. So inevitably you need more employees, and that's why we're growing in size. But still, Naver is a big company. WeChat, the mother company is Tencent, they are a huge company. So we do need to draw up our resources in order to compete with those companies.

Speaking of WeChat, WhatsApp, Facebook Messenger, and desktop apps like MSN Messenger, AOL Messenger, and even ICQ, so many applications show that instant messaging applications are extremely fragmented in both the desktop and mobile platforms. Do you think that this is bad for the Internet, and for the user?

I think it's just the nature of the service. Think of Facebook – on Facebook you can share photos, videos, different content. And it's cool to be connected to somebody halfway around the globe. To see what they're interested in, what their daily lives are like. A messenger, though, is a more private experience. And you rarely want to reach out on that level to somebody you don't know, who you cannot really verify. And so messengers are born to be local, I think. If you have relatives living overseas, maybe then you have to connect globally. Otherwise it's the people around you and around where you live. And so this fragmentation of KakaoTalk in Korea, Line in Japan, WeChat in China, I think it's natural. It would be great if everybody used KakaoTalk in Europe, the US, or Australia. But I think that's not because you want to get connected to people around the world, it will be because that service fits the needs of people in that locality. So that's the reason we're focusing on specific countries and regions. 🇰🇷



Kakao Game Success Story

Better than Angry Birds: Breakout Gingerbread Man Runs Off with All the Money

Half of all Korean smartphone users have played the game Cookie Run, which grossed over 62 billion won (US\$58.9 million) 9 months after it debuted in April 2013. In the game, a gingerbread man runs for his freedom while gaining points, and it is immensely popular among children, even though people of all ages play it in Korea.

Despite its wild success, not many people know about its creator, DevSister, or its predecessor game Ovenbreak, which the company made originally for iPhones aiming at the global market. DevSisters upgraded the game by adding social elements using the KakaoTalk Games Platform, and entered the Korean market where it became the next hit game. BusinessKorea interviewed DevSisters' two CEOs, Kim Jong-heun and Lee Ji-hoon, to learn more about the company and its interactions with KakaoTalk. What follows are excerpts from the interview.

Tell us about the history of your company. Is Cookie Run your first product?

Our company DevSisters was founded in 2007, but started working with mobile in 2009. Our company saw rapid growth, as our payroll rose from 10 to 52 within one year. But we focus on growth rather than the size of the company and would like to become a company that can have an impact in the world.

Also, Cookie Run is not really our first product. Initially we aimed at the global market with a game called Ovenbreak intended for iPhone users. At the time, smartphones were not common in Korea. The game was a success because it topped 20 million downloads world-

wide. We modified Ovenbreak to fit the Korean market by working with KakaoTalk, and launched it in April 2013.

How was the process of offering your game over KakaoTalk? Were you worried about being accepted? Did you have it in mind to work with KakaoTalk from the beginning?

For six months before the launch of Cookie Run, we talked with Kakao, since our Ovenbreak was already a hit game and we thought it would be a good match if we added Kakao's social platform to our game. Kakao had well-planned procedures for taking on our game, so we just followed them and applied for affiliation. We did not really worry about not getting accepted, because we were very confident with our game. Kakao had very transparent procedures, and we got a swift response and everything went smoothly.

Has your performance with KakaoTalk matched up with your expectations?

The result went beyond our expectations! In 2013, our revenues that were generated through Kakao were 62 billion won [US\$59 million] in 9 months. We launched our game on April 2, 2013. Last week was our anniversary. We gave away 100 crystals, worth about 10 dollars, to all game players as a gift. In Korea alone, we achieved 20 million downloads. In Korea one out of two smartphone users has played our game. We think we grabbed this result thanks to working with Kakao.

In assessing games, there are three



DevSisters Trio; from left, Lee Ji-hoon, Founder & CEO, Brave Cookie, and Kim Jong-heun, CEO.

criteria: game play, social interaction, and monetization. The first one is entirely up to us. In terms of the second, social interaction, Kakao really helped us because in marketing our game, Kakao's theme played a big role. And monetization is great, because we already passed 62 billion won, and now, after the first anniversary, we are maintaining that level of revenue, even though specifics are confidential.

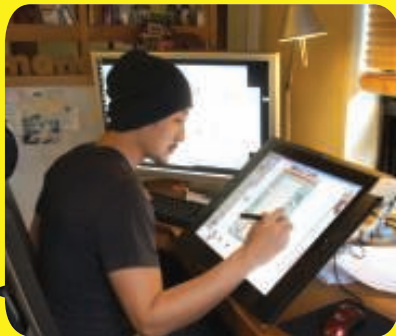
If we say that 2011 was the year of Anipang, we dare say that 2012 was the year of Cookie Run. Cookie Run was the most downloaded game in 2012 in Korea. Also, we are within the top 3 games that made the most money. According to one study done in England, our game ranked 21 among all games from 50 different countries. We even beat Angry Birds. Behind our success, Kakao's social interaction played an integral part. 🍪



Cookie Run is a simple but addictive game where you play a cookie running for its freedom.

Kakao's New Marketplace

Bringing Characters to Life in KakaoTalk's Ecosystem



Oh Se-jong and his feline friend hard at work creating emoticons and characters.

Even though KakaoTalk owes much of its success to its affiliated game companies, they also have created an ecosystem in which many other companies, designers, and artists can benefit by selling their products directly to consumers. KakaoTalk's original success as a messenger service partly came from their addictive emoticons which gained viral popularity among users of all ages. BusinessKorea interviewed Oh Se-jong, one of the artists who provides emoticons through the Kakao Item Store, and asked him about his experience working with the company.

What motivated you to become a character designer? What is your background?

I liked drawing characters or scribbling even when I was young. I am a little timid and I have been shy since I was young. So, I preferred to express myself by doodling or drawing pictures instead of talking.

Up until 2000, I studied 3D animation, and luckily, I launched the character brand Pony Brown in 2007. We design, manufacture, and sell stationery and other small items. We also actively

operate a licensing business in musical instruments, beddings, foods and underwear, by applying the characters in collaboration.

How did you get to work with Kakao, and how has it been working out so far?

I always enjoyed using KakaoTalk messages. When I was using KakaoTalk emoticons, I thought it would be fun to create moving emoticons using my characters and made the suggestion to KakaoTalk. Fortunately, my suggestion was accepted and now many people love Pony Brown character emoticons. Some say that through Kakao emoticons they got to know Pony Brown, so I hope the Kakao emoticon service will serve as a channel to promote my characters.

What are the pros and cons of creating/providing emoticons from a character designer's standpoint?

What I like about my job is that Kakao emoticons can move, unlike my characters on stationery items, so it is really fun to work on my character emoticons.

Also, it really makes me happy when people around me use my emoticons often and have fun with them.

A difficult part is that when I work on my emoticons, I get greedier and try to make them more fun and useful for users. For example, I try to incorporate popular slang or awesome gestures to make them more fun, but I need to

maintain Pony Brown's identity, so it is hard.

How are your characters or design styles different from others? Is there any theme or concept that you pursue?

I would like to share my look at the world and share the warmth that I feel when I look at the world. This is important when I commercialize my characters.

I wanted to share and communicate with cuter, prettier and more special things. At first, I targeted people in their 20s and 30s, so I intended to contain stories that 20-somethings or 30-somethings could relate to.

Pony Brown characters are set in fable-like stories where everyday life and usual stories are entailed. They are not all realistic, but I wanted them to be like a fairy tale for adults and to contain small and innocent stories. Now we are adults, but all of us once had carefree and innocent childhood days.

I think users found this kind of sentiment and communicated it with each other.

Who are the most frequent emoticon users?

Kakao offers a wide range of emoticons with different concepts depending on the user age and targets.

My character emoticons are made with people in their 20s and 30s in mind, but users tend to be diverse, like from teens to people in 30s. However, teenagers tend to buy the most because, in my opinion, they especially like to express themselves. 🐼



Pony Brown emoticons try to encapsulate everyday emotions so that users can express themselves more accurately to their friends and loved ones.

Top 5 Risks for Korean Economy

What Are Short & Long-term Risks for Korean Economy?



Domestic financial market experts named uncertainty about China and emerging markets and America's tapering as the two greatest factors threatening the Korean financial system this year. In particular, there was a six-time increase in respondents concerned about insecurity involving China and emerging markets year-on-year.

According to the result of a systemic risk survey announced on the 25th of March by the Bank of Korea, America's tapering of quantitative easing topped the list of the five core financial risks.

The Central Bank earlier had conducted a survey from Feb. 10 to 19 of department heads in charge of management strategy and risk from 77 financial companies, 74 financial market participants (including fund managers), and 16 people in charge of Korean investment at overseas asset management companies.

According to the survey, the number one risk, "America's tapering" (77 percent), was followed by "China's economic slowdown" (72 percent), "household debt problem" (70 percent), "financial uncertainty in emerging markets" (57 percent), and "companies' increased credit risk" (41 percent).

The shift in core risks suggests decreased domestic uncertainties and increased overseas uncertainties.

In regards to related overseas risks, "China and emerging market risk" soared to 129 percent in one year from 24 percent in the first half of 2013, and "America's tapering risk" also jumped to 77 percent in the first half this year from 50 percent the same period last year.


Domestic-related risks seem to be shrinking. "Household debt problem" sank from 82 to 70 percent, "real estate market insecurity" from 57 to 22 percent, and "increased company credit risk" from 53 to 41 percent.

As to the probability of the five core risks being realized, respondents perceived "America's tapering" and "emerging markets' financial uncertainty" as short-term risks (less than one year), "China's economic slowdown" and "household debt problem" as mid-term risks (1-3 years), and "company credit risk" as a mid-to-long-term risk (within 3 years).

Financial institutes recognized "America's tapering" risk as a highly realizable risk with a heavy impact on the financial system, while viewing "China's economic slowdown" and "household debt" as big risks with low probability. In the meantime, "emerging markets' financial uncertainty" was evaluated to be a high-probability but moderate impact risk.

On the probability for financial system risk to be realized within a year, 51 percent said "low," hovering much higher than "high" (16 percent). Particularly, many overseas respondents said "low," accounting for 94 percent of the total, reflecting expectations that our financial system will stay stable despite domestic and overseas uncertainties.

The probability for short term financial risks to occur seems to be decreasing. As to the possibility for financial risks to be realized in the short term, the response "high" fell from 33 percent in the first half of 2012 to 16 percent in the first half of 2014, whereas people responding "low" rose from 32 percent to 51 percent.

However, as to the probability for financial system risk to be realized within 1 to 3 years, 30 percent said "low" and 23 percent said "high." By the survey respondents' category, overseas subjects tended to believe in the low probability of realizing financial system risk, whereas non-banking respondents evaluated the risk as high. 

Upward Adjustment

Rosier Outlook on Economic Growth?



The Bank of Korea building in downtown Seoul. The building was completed in 1912.

The Bank of Korea made an upward adjustment of this year's economic growth forecast on April 10, from 3.8 percent to 4.0 percent.

The Central Bank also viewed next year's growth rate to be 4.2 percent. However, the bank explained that the upward modification this time is the result of the change in statistical criteria rather than an actual upswing in the local economy.

The actual growth rate is pretty much unchanged vis a vis the growth forecast of the year's beginning, because the difference stemmed from the new international standard, introduced at the end of last month, that allows categor-

izing intangible intellectual products such as R&D, entertainment, and literature as assets.

Shin Woon, General Director of the research department in Korea's Central Bank, said, "GDP growth is expected to mark 4.0 percent

sometime this year, on the back of a double boost in exports and domestic demand. Exports are gaining momentum as the global economy is getting out of the recession, while domestic demand will have a sustainable recovery amid improved sentiments on consumer income and corporate investment."

In fact, the bank has a rosy prospect on domestic demand recovery by assessing this year's domestic demand contributing to the net growth to be 0.1 percent higher than exports.

The director explains the optimism by saying, "R&D being included in the GDP statistics also had an effect. Ever since the financial crisis, the export ratio

always has been higher."

The Consumer Price Index forecast was set at 2.1 percent, 0.2 percent down from the beginning of the year's forecast, reflecting a prolonged weakening of agricultural product prices upon the favorable weather and college tuition freeze.

The current account balance surplus rose from US\$55 billion to US\$68 billion. Shin puts, "The surplus expanded because under the reformed international account criteria, the appropriation method of processing trade has changed, which led to additional appropriation of re-investment profits."

By saying "Upward risks and downward risks are balancing. The former includes the stagnant growth of emerging economies like China and weakening of the yen, while the prime example of the latter is advanced economies such as the US and EU's recovery gaining speed," he gave a neutral analysis as to the next path of Korea's economy. The same goes for the Consumer Price Index, because there are mixed factors such as bad weather driven price spikes in farm products and a raw material price drop due to the stalled recovery of the global economy. **BK**

Long-term Outlook

BlackRock's Unflinching Investment in Korea

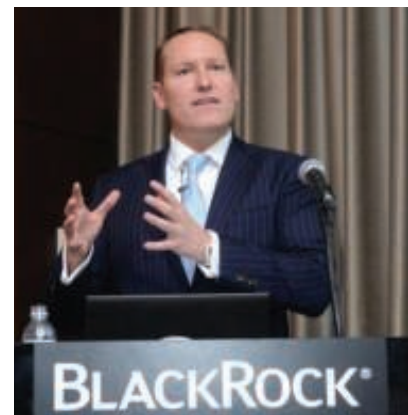
"We will keep our investment in Korea even if the North conducts a nuclear test. We look upon Korea's automobile and IT stocks as promising."

Amid renewed foreign interest for "Buy Korea," the world biggest asset management firm BlackRock expressed their positive view on the Korean stock market, raising the hope for an additional hike.

Matthew Anestis, a BlackRock portfolio strategist, said at a press conference held recently at the Conrad Hotel in Yeuido, "We are not affected by short-term risk, since we pursue long term investments focusing on individual businesses and themes." The statement

conveys the firm's undaunted stance, but also is noteworthy in that it accepts the North's nuclear test as a short-term risk, differentiating itself from other foreigners' views.

The strategist showed optimism in his outlook on Korean Stock Market. He said, "The Korean GDP is largely occupied by its exports. Recently, the U.S. and Europe are seeing economic recovery, so if the global market revives, it will shed a positive effect on the Korean Market, which is dominated by many export companies." He further analyzed that "There has been the prospect that China's economy will slow down, but if its economy, through re-balancing,



shifts its central axis towards domestic demand and consumption, Korea can garner its positive effects." He also assessed that Korea distinguishes itself from other emerging markets and said, "Korea has a healthy debt ratio to GDP ratio and its foreign exchange reserve is rising, making itself relatively free from the effects of tapering." **BK**

Foreign Trade Dependence

Korea's Reliance on Foreign Trade Falling Gradually



The Hyundai Busan container ship, run by Hyundai Merchant Marine, unloads at the Port of Los Angeles on November 2, 2013. (Photo by Corey Seeman via flickr)

The ratio of exports and imports to the gross national income (GNI) of Korea is on the decline, although it has remained over 100 percent for three consecutive years.

The ratio is a type of yardstick that shows a country's economic dependence upon foreign trade. The higher the ratio, the more vulnerable the national economy is to external factors such as uncertainties in emerging markets.

According to the Bank of Korea and the Ministry of Knowledge Economy, the ratio was 105.9 percent as of the end of last year, 6.9 percentage points down from the previous year. It had been as high as 113.5 percent in 2011.

In the meantime, Korea's dependence upon foreign trade had dropped from 77.5 percent to 67.1 percent between 2000 and 2002, and then rose to the point of 85.9 percent in 2007 and 110.7 percent in the following year. More recently, the percentage was below 100 percent in 2009 and 2010.


Experts attribute the recent increase in the trade-to-GNI ratio to the sluggish domestic consumption as of late. The Korean economy has gone through foreign exchange and credit card crises, the tapering by the Fed, emerging market uncertainties, and the financial crises from the United States and Europe with the pace of income increase still slow. The housing market has been rather slow as well, failing to stimulate the national economy.

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Cross Shareholding Restriction

Fair Trade Commission Imposes Cross Shareholding Restriction on 63 Business Groups

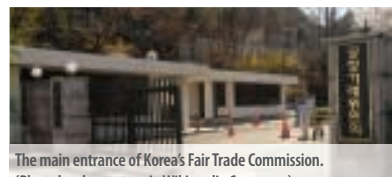
The number of the subsidiaries of major business groups subject to the cross shareholding restriction dropped for two consecutive years due to the collapse of the STX, Tong Yang, and Woongjin Groups. At the same time, the asset and profit divide between top conglomerates and the rest is widening at the same time.

The Fair Trade Commission made public its cross shareholding restriction data for this year on April 1. According to the data, the number of conglomerates in Korea has increased by one from a year earlier to 63.


The 63 chaebol had 1,677 subsidiaries combined as of that day, 91 less than

the previous year's number. The average for each conglomerate fell from 28.5 to 26.6, too. The total number had been 1,831 in 2012.

In the meantime, the leading and following conglomerates showed a greater gap in terms of the size of the assets, sales, and current net income alike. Specifically, the top four – Samsung, Hyundai Motor, SK, and LG – accounted for 52.0 percent and 55.4 percent of the total assets and sales of the top 30, and the current net income ratio was 90.1 percent. The figures increased by 6.5 percentage points, 2.5 percentage points, and 11.9 percentage points each from four years earlier.



The main entrance of Korea's Fair Trade Commission.
(Photo by altostratus via Wikimedia Commons)

Besides, the top four conglomerates' assets surged 65.1 percent during the past five years, whereas those of the others in the top 10 group recorded a growth of just 37.1 percent. The asset growth rate was limited to 17.7 percent for those ranking 11th to 30th. Likewise, the top four's sales growth rate during the five-year period reached 53.6 percent, while that of those out of 10th place was only 20.1 percent. The other six raised their sales by 59.7 percent during the same period. 

Hoarding Cash

Leading Conglomerates in Korea Scrambling for Cash

It has been found that major Korean conglomerates are still busy hoarding cash rather than making aggressive investments.

According to data from CEO Score, the combined cash and cash equivalents of the 171 listed subsidiaries of the 30 leading chaebols, excluding financial companies, added up to 157.7 trillion won (US\$148.1 billion) last year, 18.3 percent greater from the 133.36 trillion won of the previous year. The amount is equivalent to approximately 50 percent of the country's total national budget for 2012.

It is said that these companies are having a hard time finding an investment target amid the Fed's tapering of quantitative easing, the weak yen policy of Japan, and the slowdown of the Chinese economy. In addition, the top three conglomerates – Samsung Group, Hyundai Motor Group, and SK Group – accounted for 70.1 percent, while the top 10 took up 88.4 percent of the total amount.

The Samsung Group was found to have approximately 60 trillion won


(US\$56 billion) on hand in cash and cash equivalents, recording a 40 percent growth from a year earlier. It was followed by the Hyundai Motor Group (39.5 trillion won, US\$37 billion, 14.2 percent up) and the SK Group (10.96 trillion won, US\$10.3 billion, unchanged). The combined amount reached no less than 110.48 trillion won (US\$103.74 billion), and their ratio increased by 3.8 percentage points from the previous year's 66.3 percent.

The other entries on the top 10 list were LG (9.14 trillion won, US\$8.5 billion, 14.0 percent up), POSCO (7.62 trillion won, US\$7.16 billion, 11.1 percent up), Lotte (3.94 trillion won, US\$3.70 billion, 22.7 percent up), GS (3.18 trillion won, US\$, 18.7 percent up), KT (2.32 trillion won, US\$2.99 billion, 4.4 percent down), Hanjin (2.13 trillion won, US\$2.0 billion, 15.0 percent down) and Hyundai Heavy Industries (1.92 trillion won, US\$1.8 billion, 14.7 percent up). The 10 biggest chaebols' cash and cash equivalents totaled 139.4 trillion won (US\$130.9 billion). Their sum for



The corporate headquarters of several of the most well-known conglomerates, or chaebol, in Korea. 31 March 2014.

2012 had been 114 trillion won.

By company, Samsung Electronics kept 53 trillion won (US\$49.8 billion), to top the chart. The amount increased by as much as 46.5 percent from a year ago. It was followed by Hyundai Motor Company (21.7 trillion won, US\$20.3 billion), POSCO (7.1 trillion won, US\$6.67 billion), Hyundai Mobis (6.66 trillion won, US\$6.25 billion), Kia Motors (6.35 trillion won, US\$5.96 billion), SK Innovation (2.96 trillion won, US\$2.78 billion), SK Hynix (2.79 trillion won, US\$2.62 billion), LG Electronics (2.7 trillion won, US\$2.54 billion), LG Display (2.32 trillion won, US\$2.18 billion) and Hyundai Engineering & Construction (2.15 trillion won, US\$2.02 billion). 



Hyundai Heavy Industries' H dock holds the almost-finished Giant Ace and Ocean Road cargo ships, under construction in 2008.

Cruel Times

Corporate Bonds of Construction, Aviation, Shipping Industries Downgraded to Speculative Grade

A massive grading overhaul is expected in May and June in the corporate bonds market. Credit rating agencies are spearheading company credit adjustments, which are expected to be followed by the downward adjustment of businesses sensitive to economic ups and downs, and conglomerates' affiliate companies with sub-prime credit.

According to the investment banking industry on March 24, Korea Investors Service, a credit rating agency, recently downgraded by three levels the credit ratings of the non-guaranteed bonds of Hyundai Merchant Marine, Hyundai Elevator, and Hyundai Logistics. Their new rating is BB+, a speculative grade. Previously the bonds were at BBB+, or investment grade. The downgrade marks the bonds as inappropriate for investment, and also indicates more downgrades to come in the next few months.

After a move like this, credit rating agencies are anticipated to downgrade A-rated companies as well, which are relatively vulnerable to recession, during the upcoming corporate bond evaluation season in May and June. Every year, a lot of rating adjustments are made on


corporate bonds in May and June and on commercial papers (CPs) in November and December. Last year, 56 percent of the total credit rating adjustment cases were made during the period.

The credit rating adjustment is expected to focus on recession-vulnerable industries such as shipping, aviation, and construction. Im Jung-min, a researcher at Woori Investment Securities, said, "During the second quarter, corporate bonds to be matured will increase up to 4.4 trillion won (US\$4.1 billion) with issuances of vulnerable company bonds issued heavily concentrated, leading to deepening of polarization." Another researcher, Kim Eun-ki, said, "After the settlement of accounts in the first quarter, the construction sector will face additional credit rating adjustments, and so will shipping companies in July."

According to one analysis, even sub-prime affiliates of prime parent companies might not be able to avert a corporate bond rating adjustment. That happened in the aftermath of the incident where KT's subsidiary KT ENS filed electrically for a court receivership (corporate rehabilitation proceed-

ing). KT ENS set a precedent that even companies that have top prime rated parent companies can have their bonds turn into default bonds in no time.

The corporate bond market responded instantly. Recently, CJ Korea Express (AA-), a CJ Group leading company with a prime rating, made a payment guarantee for the Korea Integrated Freight Terminal that issued corporate bonds worth 50 billion won (US\$46.5 million), but their sales failed. "This is the first case of failing to fill the raising amount in the demand forecast of AA-level company bonds since January," explained Kim Sang-hun, a researcher at Shinhan Investment Corp.

One associate in the securities industry said, "Amid the continued downward performance of vulnerable businesses, credit rating agencies are inclined to review the affiliates' competitiveness within the group and the prospect of the parent company's aid. It is most likely that the issuance of corporate bonds will get harder for shipping, aviation, and construction companies, including the affiliated companies of four leading conglomerates such as Samsung and SK." 



Evaporated Money

10 Major Groups Lost 26 Trillion Won in Market Cap This Year

It has been found that a total of 26 trillion won (US\$4.1 billion) in market capitalization has evaporated from the 92 listed subsidiaries of the 10 major business groups in Korea since the beginning of this year. Still, the Hanjin Group's market cap has increased by over 10 percent, and those of the Hyundai Motor Group and the SK Group have gone up as well, although only slightly.

According to financial information provider FnGuide's March 23 data, the total market cap of the 92 companies was 674.464 trillion won (US\$625.778 billion) back on January 2, the first session of this year. However, it declined by 26.269 trillion won (US\$24.378 billion) to 648.195 trillion won (US\$601.524 billion) as of March 19. The Korea Composite Stock Price Index (KOSPI) fell over 4 percent from 2,011.34 points during the same period.

Only three out of the 10 major groups recorded a growth in market cap – Hanjin (10.51 percent), Hyundai Motor (2.32 percent), and SK (1.02 percent). The market capitalization of the other seven decreased by 17.76 percent for Hyundai Heavy Industries Group, 16.61 percent for Hanwha Group, 8.02 percent for LG, 6.21 percent for GS, and 3.93 percent for Samsung.

Specifically, the five listed subsidiaries of the Hanjin Group increased from 3.3018 trillion won (US\$3.0640 billion) to 3.6488 trillion won (US\$3.3860 billion) during the period. Aircraft fuel prices dropped 6.1 percent from a year earlier to increase the stock price and market cap of Korean Air by 20 percent and 354.9 billion won (US\$329.3 million), respectively. Still, the stock price of Hanjin Shipping, another one of the major subsidiaries, declined 15.27 percent during the period, so the total market cap fell from 945.4 billion won (US\$877.3 million) to 801.1 billion won (US\$743.4 million).

Hyundai Motor Company recorded a 2.9 percent increase in stock price thanks to its new models such as the LF Sonata, and Kia Motors posted an 8.35 percent increase as well with its electric vehicles. However, Hyundai Hysco was re-listed after the spin-off on January 24, to increase the market cap of the entire group by at least 60%. The growth of the combined market capitalization of the 10 subsidiaries was limited to 2.32


percent, or 2.9863 trillion won (US\$2.7712 billion).

SK Innovation (10.71 percent below zero) and SK Telecom (5.48 percent below zero) were the sticking points for the SK Group. Although SK Networks and SK Chemical boosted their stock prices by 26.76 percent and 20.86 percent each, the poor performance of the two major subsidiaries resulted in just a 1.02 percent, or 809.2 billion won (US\$750.8 million), increase in the combined market cap of the 17 listed subsidiaries.

Meanwhile, the Hyundai Heavy Industries group's aggregate market value has plummeted 17.76 percent, or 4.1943 trillion won (US\$3.8923 billion), since the first session of 2014. Key affiliates like Hyundai Heavy Industries and Hyundai Mipo Dockyard showed very sluggish performance in the last quarter of 2013. Besides, things remain unfavorable for them in the second quarter of this year, too.

Lotte Group's aggregate value plunged 16.61 percent from 28.4159 trillion won (US\$26.3700 billion) to 23.6967 trillion won (US\$21.9905 billion). Six out of the 8 subsidiaries had to witness their share prices fall. Likewise, the Hanwha Group lost 1.0751 billion won (US\$997,692) (negative 8.17 percent) with the share prices of Hanwha Life Insurance, Hanwha, and Hanwha Chemical dropping by 8.36 percent, 16.15 percent, and 3.8 percent, respectively.

POSCO Group's market cap slid 8.88 percent from 35.3839 trillion won (US\$32.8362 billion) to 32.2401 trillion won (US\$29.9188 billion) due to the slump in the global steel industry. Those of LG and GS plummeted from 68.0871 trillion won (US\$63.1848 billion) to 62.6263 trillion won (US\$58.1172 billion), and from 11.3055 trillion won (US\$10.4915 billion) to 10.6037 trillion won (US\$9.8402 billion) each.

In the meantime, 11 out of the Samsung Group's 17 listed subsidiaries posted a falling stock price during the same period to drag down the combined market cap from 283.0542 trillion won (US\$262.6743 billion) to 272.9376 trillion won (US\$253.2861 billion). Samsung Electronics lost 5.8919 trillion won (US\$5.4677 billion, 3.06 percent), followed by Cheil Worldwide (14.07 percent), Samsung Securities (17.69 percent), Samsung Heavy Industries (19.19 percent), and Cheil Industries (24.47 percent). 

World's First Ship-covered Bond Deal

Korea Eximbank to Finance Scorpio Tankers for US\$300 Million



From left, DNB Markets Managing Director and CEO Ted Jadick, Scorpio Tankers Chief Operating Officer Cameron Mackey, Eximbank President Lee Duk-hoon, and JP Morgan Managing Director Michael Clare after signing the financing deal on April 2.



The Export-Import Bank of Korea (Korea Eximbank) announced on April 2 (local time) in New York that it concluded a vessel financing deal that will finance U.S.-based Scorpio Tankers for a total of US\$300 million, including US\$175 million in direct finance and US\$125 million in vessel-backed bonds.

Lee Duk-hoon, Korea Eximbank's president, signed the deal with Cameron Mackey, chief operating officer of Scorpio Tankers, at the latter's headquarters in New York.

As if to reflect local interest, the signing ceremony was attended by many shipping and shipbuilding journalists such as reporters from Marine Money and TradeWinds, as well as financial moguls such as DNB Markets CEO Ted Jadick, JP Morgan Managing Director Michael Clare, and A&O's Paul Nelson, accompanied by their law firm partners.

Eximbank's deal this time is to fund the Scorpio Tankers' purchasing of oil carriers from local shipbuilders. The latter had placed orders with three Korean shipbuilding companies including Hyundai Mipo Dockyard, Inc.

Scorpio Tankers is an American oil

tanker specialized shipping company that is at the forefront of the eco-ship movement in the global shipping markets. The company placed orders of 57 high-fuel-efficient vessels with the local shipbuilding companies last year.

The financial deal is noteworthy in that Eximbank signed, on top of the loan contract of US\$175 million, a US\$125 million vessel-backed bond agreement for the first time among export credit agencies in the world.

The vessel-backed bond is a financial product that allows an overseas ship owner to issue a bond to finance its ship purchasing from Korea's shipbuilders, while Eximbank guarantees the bond's principal.

It has the merit of expanding and diversifying funding methods via Eximbank's guaranteeing of the ship owner's bonds so that overseas investors can utilize the funds more easily, which will boost the local shipbuilders' exports.

The local financial institution had approved the bond guarantee in September last year to support the local shipbuilders' order procurement, recently wrapped up negotiations with the invest-


ment banks and ship owners, and finally concluded the bond guarantee agreement on April 2.

For the global shipping finance markets, ECAs like Eximbank are growing to be more important than ever, as their traditional finance sources of European banks have drastically scaled down their loans.

Earlier the bank had approved bond guarantees for the local shipping company's ship orders, and other prestigious overseas shipping companies are also sounding out the possibility of financial support via bond guarantees from the bank.

The bank president said at the signing ceremony, "Eximbank will lead in the ship financing industry via various financial products such as direct loans, debt guarantees, and bond guarantees, and will provide optimal customized financing tailored to each ship owner and transaction. We will not spare any effort in securing a growth drive in the shipping and shipbuilding industries."

The bank is planning to finance local and overseas shipping companies, using the ship owner financing method, or a total of US\$4 billion, 27 percent higher than last year, mainly to fund high-value-added ships such as eco ships, oil drillers, and LNG carriers.

The bank will also encourage other institutions such as local banks, insurance companies, and the national pension service to participate in vessel export financing via providing bond and debt guarantees. 

Korean Shadow Banking

Shadow Banking Exceeds 1.5 Quadrillion Won in Size



The size of shadow banking has reached 1.561 quadrillion won (US\$1.481 trillion) in Korea. Its ratio to the national GDP is the seventh-highest among the 26 countries where the Financial Stability Board (FSB) conducted a relevant survey recently.

Justice Party lawmaker Park Won-seok, who is associated with the Strategy and Finance Committee of the National Assembly, said on April 3 that the size of shadow banking is showing a rapid increase in Korea these days, with local securities companies issuing more and more asset-backed commercial papers (ABCPs) by means of money trusts and the like.

Shadow banking can be defined as a group of entities that fulfills fund brokerage functions via complex financial transactions as banks do. However, the difference is that they are not subject to the strict supervision or regulation of banks in general.


According to the lawmaker's data submitted by the Bank of Korea, the size of shadow banking in a broad sense amounted to 1.561 quadrillion won (US\$1.481 trillion) as of the end of last year, adding approximately 157 trillion won (US\$149 billion) in just one year. The broad sense of the term includes those institutions and products providing credit intermediation out of the banking system. In particular, the trust account increased by about 7 trillion won (US\$6.6 billion) to lead the surge. The trust account covers the special money trust accounts of banks, insurers, and stock firms.

The shadow banking institutions and products in the narrow sense, in the meantime, jumped by 3 trillion won (US\$2.8 billion) and 5.7 trillion won (US\$5.4 billion) to 646 trillion won (US\$613 billion) and 564 trillion won (US\$535 billion) during the same period, respectively. Products of securities

organizations, specialized credit financial businesses, special-purpose companies, and loan providers are included in this category. The ABCPs reached 14 trillion won (US\$13 billion) in size, followed by the mortgage-backed securities (MBS) issued by the Korea Housing Finance Corporation (12 trillion won, US\$11.4 billion) and other liquidation assets (6 trillion won, US\$5.9 billion).

Nowadays, local stock firms are increasing their ABCP sales. According to the Korea Financial Investment Association, their special money trust amounted to 121.2107 trillion won (US\$115.0289 billion) at the end of January this year, increasing by over 7 trillion won (US\$6.6 billion) in five years.

This reflects that more and more corporations are procuring financial resources with direct rather than indirect financing means. The problem is that some conglomerates use their financial subsidiaries to support their non-banking affiliates or are engaged in incomplete sales, as in the case of the recent Tong Yang scandal, during the course.

The FSB recently announced that Korea's shadow banking-to-GDP ratio exceeded 100 percent this year. "The percentage is likely to keep going up, as the participation in the payment and settlement systems and business loans are allowed for securities companies," the lawmaker explained, continuing, "At the same time, shadow banking risks could emerge in the form of payment and settlement risks and other systemic risks, which means the supervisory authorities including the central bank have to set up monitoring systems as soon as possible." Bank of Korea Governor Lee Ju-yeol, in this context, has mentioned strengthened monitoring of shadow banking as one of his five tasks for financial stability during his confirmation hearing as of late. 

Medical Export

Korean Medicine Heading Overseas, and Vice Versa



The headquarters of the Ministry of Health and Welfare in Sejong City.

People all over the world are realizing the high-quality and reasonably-priced medical services available in Korea, and they are coming to Korea in droves for medical reasons ranging from simple skin treatments to complicated plastic surgery.

The phenomenon has not gone unnoticed by the Korean government. It is working to revamp the Korean medical system to boost the promising business sector. In fact, the Ministry of Health and Welfare has just created the Overseas Support Center for Medical Services.

BusinessKorea interviewed Jong Ho-won, the head of the new center, to find out about the center's role and his view on where Korea stands in medical service infrastructure competitiveness.

In light of establishing an overseas support center for medical services within the Ministry of Health and Welfare last September, please explain the center's role in detail.



Jong Ho-won, director of the Division of Global Healthcare at the Ministry of Health and Welfare.

Largely, we are running three kinds of operations. First, we attract foreign patients for medical tourism. Second, we support our medical system expanding overseas. And third, we train medical experts in Korea and support foreign medical staff training in Korea. These programs are all comprehensively operated at the state level.

To attract overseas patients, we try to improve medical laws and systems to allow domestic insurance companies to invite foreign patients, develop promotional materials to publicize the excellence of Korean medical services, invite state-supported foreign patients through inter-governmental cooperation, secure a channel for settling direct payment transactions with global insurance com-

panies, determine international medical treatment fees, and run reporting centers for illegal brokers. In one word, we are engaged in enhancing market transparency and reliability.

To support Korean medicine advancing into foreign markets, we pursue inter-governmental deregulation, support securing contracts of governmental projects, seek systematic improvement such as ironing out guidelines on medical companies' overseas investments, build financial aid systems including raising funds for small to medium-sized hospitals going overseas, develop models for a medical information system for overseas activities, and develop specialized institutions that will support overseas expansion.

Lastly, we nurture human resources specializing in foreign patients and overseas expansion such as medical interpreters, medical tourism coordinators, and foreign market entry consultants. We also invite medical trainees from collaborating countries such as Saudi Arabia to domestic medical institutions and plan their training programs.

How was Korea's overseas medical performance up to last year, and how is the outlook for 2014?

As of September 2013, 111 medical institutions were based in 20 different countries. Up until then, the activities were centered around voluntary overseas expansion led by the private sector. The expansion was mainly limited to China and the U.S., mostly in the fields of dermatology, plastic surgery, dental, spinal, and oriental medicine. However, due to its short history, now is the time to build diverse expansion experience and seek successful models. At the same time, the medical field's overseas expansion will speed up, triggered by the onset of building infrastructure for expansion as well as inter-governmental cooperation-based projects.

How are you cooperating with other departments for the medical field's overseas expansion?

The ministry is realizing the need for cooperation with other relevant depart-

ments.

In this regard, the government, including the Ministry of Health and Welfare, announced the formation of a Task Force for Private and Governmental Cooperation on International Medical Business through the Overseas Expansion Plan for Korean Medicine introduced during a ministerial-level foreign economics meeting in November 2013.

This will function as a control tower for the medical field's overseas expansion, encompassing the nationwide gamut including the government, public institutes, and related industry and private sector experts. It will consist of a government departmental consultative body, private experts' consulting meeting/forum, and working level implementation team.

The working level implementation team will cooperate with the relevant department to form an international medical operating team to support prac-

tical operations such as designing joint strategies and exploring and executing joint tasks.

The team will have 25 members from five public offices including the Ministry of Health and Welfare, Korea Health Industry Development Institute, Korea Trade-Investment Promotion Agency, Korea Tourist Services Inc., Korea Human Resource Development Institute for Health & Welfare, and the Korea International Cooperation Agency.


How would you evaluate the competitiveness of Korea's medicine and tourism infrastructure? How about some tasks to be done?

Korea boasts of excellent medical skills and reasonable costs, but our quality medical services are relatively unknown, due to a lack of promotion. In 2014, we are planning to actively support the development of services that combine medical resources and tourism

resources.

What efforts is the government making to gain competitiveness in medical equipment? As previously stated, the Ministry of Health and Welfare is planning to build a business model to boost our competitiveness for overseas expansion of the medical field, such as medical information systems.

Since 2012, the government has been developing and distributing manuals on overseas expansion, in support of the private medical sector's expansion projects and initial expansion aid.

Also, through joint R&D with relevant departments, it will set up export models on hospital management, patient care, and medical information systems. These systems will measure and evaluate medical quality, standardize terms, work with future Electronic Health Records, and offer a framework for remote diagnosis. 

Russian Medical Tourists Increasingly Prefer Korea



Baek Nam-seon, director of the Ewha Womans University Cancer Center for Women, signs an MOU in Vladivostok with President Kuznetsov Vladimir of Pacific State Medical College on her March 29 to April 3 trip to Russia.

Korean medical institutions are striving to attract patients from Russia with the visa-free agreement in effect from this year between the two countries. Approximately 20,000 Russian medical tourists visited Korea and the number is increasing rapidly, about 110 percent each year, during the past three-year period. The agreement is likely to further boost the number to the point of Russia ranking third, beating Japan, sooner or later.


Under the circumstances, both leading general and university hospitals are busy finding translators and preparing food for the inbound Russians. Some of them have sent their own staff to Russia for patient attraction, too.

For example, the Ewha Womans University Medical Center sent a team to this end on March 29, led by Baek Nam-seon, director of the Ewha Womans University Cancer Center for Women. It conducted various PR and marketing activities in Khabarovsk and Vladivostok for six days and succeeded in signing patient attraction contracts with eight medical tourism agencies. The medical center is planning to focus on its specialties like breast cancer and cervical cancer treatments, while exporting its advanced medical technology to Russia through cooperation with local medical institutions and colleges.

In the meantime, Kyung Hee University Hospital at Gangdong has recently hired 10 interpreters for patients from Russia along with Russian chefs. It is currently showing two Russian TV channels around the clock in the wards and providing an After Care Program for

consistent contact with the customers even after they return home.

The Korean government has made public a new plan in February this year for the promotion of medical tourism from Russia to Korea. According to it, hospitals and local governments are to be engaged in the development of special medical tourism programs, and the Korea Medical Tourism Expo is going to be held in the Far Eastern region of Russia within this year.

"Medical services are free in Russia, but it takes months to move from primary to secondary healthcare institutions, and the facilities and the quality of the services are far from satisfactory," said Ko Yong, director of the Hanyang University International Hospital, adding, "An increasing number of patients with advanced diseases and those who are better-off are visiting Korea these days to get their ailments treated in, say, a month, which would take a year if they were in Russia." He also mentioned that their favorite destination is shifting to Korea from Japan, which are characterized by top-notch services and a high degree of exclusiveness, respectively. 

Incheon Medical Tourism Foundation

Helping Incheon City to Be Medical Airport Hub in Northeast Asia

Hallyu is going viral worldwide, and Korean medical technology is also gaining popularity overseas. More and more foreigners from all over the world are flocking to Korea to take advantage of Korean medical services, renowned for their superior technology and reasonable cost.

The Korean government is also trying to make use of this positive trend by taking a few steps to support Korean medical tourism and to fuel its growth. One of the most prominent regional governments in this effort is Incheon, which also happens to boast a world-class international airport and is scheduled to host the Asian Games this year.

BusinessKorea interviewed Kim Bong-ki, CEO of the Incheon Medical Tourism Foundation (IMTF) to ask him about the organization's mission, performance, medical products, and other topics, especially those in connection with opening the Asian Games in Incheon this year.

Here are some excerpts from the interview with him.



Gov't officials from 11 Asian nations pose for a picture while on a visit to Inha Incheon Medical Center on June 17, 2013. The event was sponsored by the Incheon Medical Tourism Foundation.

Could you summarize the foundation's mission and performance so far since its kickoff in 2011?

The IMTF was founded in August 2011 with the mission of grooming Incheon to become Northeast Asia's top medical tourism city, by harnessing top-notch medical services, a well-developed transportation network, attractive tourism resources, and unsparing support from the municipality. It was the first medical tourism organization to be accredited by the Ministry of Health and Welfare among nationwide municipalities.

The foundation is endeavoring to

support Incheon's medical institutions and relevant organizations, to establish the basis of Incheon's medical tourism business, and to build a collaborative network among medical-related organizations inside and outside of Korea.

As a result, the number of medical tourists soared from 2,898 in 2010 to 4,400 in 2011 after the birth of the foundation. The number grew to 6,317 in 2012, and over 10,000 in 2013. The goal for this year is to attract 14,000 medical patients.

Based on statistical data, it is estimated that 2013's 10,000 patients helped to generate some 19.1 billion won

Hospitals in Incheon broken down by recognition

Category	Hospitals	Total
JCI Accredited	Inha University Hospital	1
Accredited by Ministry of Health and Welfare	Catholic University Incheon Sungmo Hospital	12
	Inha University Hospital	
	Hangil Ophthalmic Hospital	
	Gacheon Gil Hospital	
	Hyundai U-bis Hospital	
	Incheon Sarang Hospital	
	Incheon Nanuri Hospital	
	21 Century Hospital	
	Bupyeong Himchan Hospital	
	Baro Hospital	
Designated by Ministry of Health and Welfare	Seoul Women's Hospital	7
	Naeun Hospital	
	Bupyeong Himchan Hospital	
	Sungmin Hospital	
	Incheon Nanuri Hospital	
	Seoul Women's Hospital	
	Hangil ophthalmic Hospital	
	Braddom Memorial Hospital	
	Dain Ear Nose and Throat Hospital	
Total		20

[US\$17.8 million] in medical revenues and 6.326 billion won [US\$5.902 million] in tourism profits, totaling over 25.4 billion won [US\$23.7 million] in medical and tourism profits.

Would you mind introducing your flagship business or specialized products?

First of all, we are trying to reinforce activities to penetrate markets in Far Eastern Asian cities such as Khabarovsk and Vladivostok, on the heels of the Korea-Russia 60 day non-visa pact coming into effect since January 1, 2014, to expand into the Russian market. Market



research is underway for Russian market exploration together with signing a Memorandum of Understanding with the Korea Tourism Organization at the beginning of 2014.

We are also exerting ourselves to attract medical tourists as well as to promote Incheon's medical infrastructure by setting up and operating a public relations hall within the Asian Games athletes' village to be open from September to October 2014.

This year we are planning to introduce a One Hour Medical Service at Incheon Airport, targeting transfer passengers so that they can receive fast and accurate medical services. The main services to be provided are medical check-ups, skin care, and teeth cleaning.

The One Hour Medical Service program ensures that patients will get to the hospital within one hour after their arrival at the airport, targeting 500,000 passengers with more than a four hour layover at the airport, out of 6.5 million total Incheon airport transfer passengers. Currently, 17,000, only slightly over 3 percent of the total transfer passengers, are opting for transfer tours. The foundation will make full use of the logo that was chosen through last year's public contest to actively promote the One Hour Medical Service.

Furthermore, by aggressively raising governmental policy funds, we will set up a "Medical PR Zone" within Incheon Airport's Customs, Immigration, and Quarantine area and transfer desk areas to run a hands-on corner where people

can experience medical service samples, get medical tourism information, and meet potential doctors.

How can we break down medical tourists to Incheon medical institutions by nationality?

The One Hour Medical Service program logo chosen by popular contest.

This year, the foundation is eyeing China, Russia, Central Asia, and Vietnam, and as for North America, we are zeroing in on Canada and the military market.

As of 2012, foreign patients can be broken down by nationality as follows: 28 percent Chinese, 8.9 percent Americans, 7.6 percent Russians, and 4.0 percent Mongolians. Russia in particular is showing a high annual growth rate of 88.1 percent in the last four years.

Could you compare the competitiveness of Incheon's medical tourism infrastructure with those of other municipalities?

We have the huge advantage of the world-class Incheon airport, so we are trying to create the image of "Incheon Healthcare City" by promoting Incheon Airport as the "Medical Hub Airport."

We are especially spearheading the Incheon Cerebral & Cardiovascular Cluster (ICC) to treat cerebral and cardiovascular diseases. It is jointly operated by Incheon City, Incheon Medical Tourism Foundation, and 3 general hospitals in Incheon, which are Catholic University, Gacheon Gil Hospital, and Inha University Hospital. In 2013, the ICC treated 564 cerebral and cardiovascular patients, 156% of the year's goal.

Moreover, since the foundation is entering into its third year of business, we are trying to go beyond the simple offering of medical services to shopping, culture, and other services.

The organizations participating in the ICC place a focus on attracting overseas patients, and as a result, a brisk overseas network has been created in Incheon. The network has already been very active in establishing connections with locations in Uzbekistan, Tenji in China, and Hanoi in Vietnam, where we


have been engaged in vigorous PR and communication through video conference systems. In 2013, we also formed a network with Ulaanbaatar in Mongolia and Shenyang in China in our efforts to invigorate our medical tourism.

Incheon also has 20 hospitals that are accredited domestically and internationally, more than any other municipality. Inha University Hospital obtained Joint Commission International's (JCI) accreditation, while 12 hospitals are registered as being accredited by the Ministry of Health and Welfare and 7 are picked as the Ministry's designated hospitals.

Related with the above, for three consecutive years Incheon City and the Incheon Medical Tourism Foundation were selected as "2014's leading business entity in nurturing medical technology and attracting overseas patients" organized by the Ministry of Health and Welfare. Incheon City, in the wake of this selection, secured 150 million won [US\$139,950], procuring a total of 400 million won [US\$373,200] between 2012 and 2014 from the state coffers. The funds will help to speed up its endeavors in grooming the city as the medical hub for treating cerebral and cardiovascular diseases to attract foreign patients to Incheon, which is our goal.

Could we know more about your overseas activities?

To maximize the effects of charitable medical operations that used to center around the city and medical organizations, we are expanding our collaboration with major companies that are running social work.

In particular, what we call the "Nanum Medical Operation" is receiving a lot of positive press after treating Vietnamese burn victims, in link with Korea GM's Hanmaeum Foundation. For example, through the program, 15-year-old Vietnamese burn victim Nguyen Thanh Huyen will visit Korea in September this year to get a free four-week treatment. Vietnamese state-run Hanoi broadcasting is scheduled to make a documentary about that and to air it in November. 

Profit Oligarchy

Net Profit Polarization Deepened Last Year

Last year, major listed companies' profits somewhat shrank amid the economic recession. Their sales and operating profits increased a little, but net profitability against sales dropped, while the ratio of certain companies' profits ballooned.

The lopsidedness of a few top companies is being exacerbated, shown by the fact that the top 10 listed companies' net profits took up 90 percent of all listed companies' profits.

Korea Exchange and Korea Listed Companies Association revealed on April 1, after analyzing the 2013's performance of 494 listed companies, their sales (about 1.813 quadrillion won, US\$1.7 trillion) climbed 1.84 percent year-on-year, while their operating profits (about 101 trillion won, US\$95.4 billion) went up 4.85 percent.

However, in the same period, their net profits (about 62 trillion won, or US\$58.6 billion) fell 4.37 percent, and so did dominant firm equity ownership net profits by 2.10 percent.

The net profit rate against sales, which reflects profitability, also dropped 0.22 percentage points from 3.63 percent to 3.41 percent, meaning the net profits out of the sales of 1,000 won dropped from 36.3 won to 34.1 won.

Profits by individual company and industry were not dissimilar.

By industry, a sales increase over 6 percent was posted by medical precision, electric electronics, electric gas, and pharmaceuticals, while sales fell in steel and metal, mechanic, and transportation and storage.

In particular, on the back of Samsung Electronics' success, the electronics industry was doing well, and the industry's year-on-year operating profits jumped 34.6 percent. Also showing high growth were fabric and textiles (68.0

percent) and pharmaceuticals (37.7 percent). Contrarily, the downward trend was shared by chemicals (-18.7 percent), transportation apparatus (-16.3 percent), and steel and metal (-15.8 percent).

Hwang Ho-jin, Korea Exchange notification team leader, explained, "The performance of chemicals and steel deteriorated while the domestic demand-oriented electric/gas industry turned to a surplus. The export-dependent materials and components industry was hard hit by a global recession and reduced investment in facilities."

Despite worsening profitability, it was indicated that lopsidedness on top-listed companies such as Samsung Electronics was getting more extreme in terms of operating profits and net profits. The top 10 listed companies' net profits (about 55.8 trillion won, US\$52.7 billion) occupied 90.32 percent of the total net profits (61.7 trillion won, US\$58.3 billion) of 494 companies, implying that polarization among domestic companies is deepening.

These top 10 listed companies' net profit ratios went up 12.48 percent year-on-year, while their net profits amounted to 77.84 percent of the total net profits posted by all listed companies last year.

Among last year's top 10 companies in net profits were Samsung Electronics, Hyundai Motors, Kia Motors, Hyundai Mobis, SK Hynix, SK Telecom, POSCO, LG Chem, SK, and LG. The year before, the list included Samsung Electronics, Hyundai Motors, Kia Motors, Hyundai Mobis, SK, POSCO, LG Chem, Samsung SDI, SK Innovation, and Lotte Shopping.


Samsung Electronics, Hyundai Motors, Kia Motors, and Hyundai Mobis cemented their top rankings in

net profits, and so did POSCO, LG Chem, and SK by remaining in the top ten. Therefore, polarization intensified due to the predominant leading forces of Samsung, Hyundai, Posco and LG.

However, the problem is that out of top 10 listed companies, only three registered an increase in net profits year-on-year: Samsung Electronics, SK Hynix, and SK Telecom.

Samsung Electronics' net profits swelled 27.8 percent year-on-year with 30.5 trillion won (US\$28.8 billion). SK Hynix succeeded in turning around to see a surplus. SK Telecom enjoyed a whopping year-on-year net profit increase of 44.27 percent with 1.6 trillion won (US\$1.5 billion) in net profits. Only two companies beat Samsung Electronics in net profit increase; SK Telecom (44.3 percent) and LG Display (77.3 percent).

Particularly, Samsung Electronics' net profits last year amounted to almost half of the whole profits posted in the stock market. Samsung's tech giant recorded a record high profit of 30.5 trillion won (US\$28.8 billion) during the term last year, up 27.8 percent year-on-year. Considering all the listed companies' net profits were 61.7 trillion won (US\$58.3 billion), Samsung Electronics alone is accountable for 49.4 percent of the total.

One industry associate said, "Lopsidedness is becoming chronic. An exorbitant portion is generated from global companies like Samsung Electronics or Hyundai Motors. This worries me, in that dependence on certain major companies will become more severe, and this might weaken not only the real market economy but also the financial market." 



The corporate headquarters of several of the most well-known conglomerates, or chaebol, in Korea.



A Samsung household products plant in the Vorsino industrial park in the Kaluga region of Russia.

Crimean Crisis

Korean Corporations on the Watch As Crimea Gets Annexed by Russia

Korean companies doing business in Russia are keeping a close eye on the local political situation, with the Russian annexation of the Autonomous Republic of Crimea on the horizon. The US and the EU have warned that they could resort to freezing assets, investment restrictions, and the like depending on the voting results. Under the circumstances, the investment environment is forecast to be significantly exacerbated there.

The trade volume between Korea and Russia is on the rise these days, and Korean companies are also increasing their investment in the latter. Experts point out that they need to provide against the potential losses that could follow a deterioration of regional conditions.


In particular, Korean electronics manufacturers are wary of a decline in domestic consumption. Samsung Electronics, which is the largest TV supplier in Russia, is currently fostering its TV manufacturing plant in Kaluga as its production base covering the

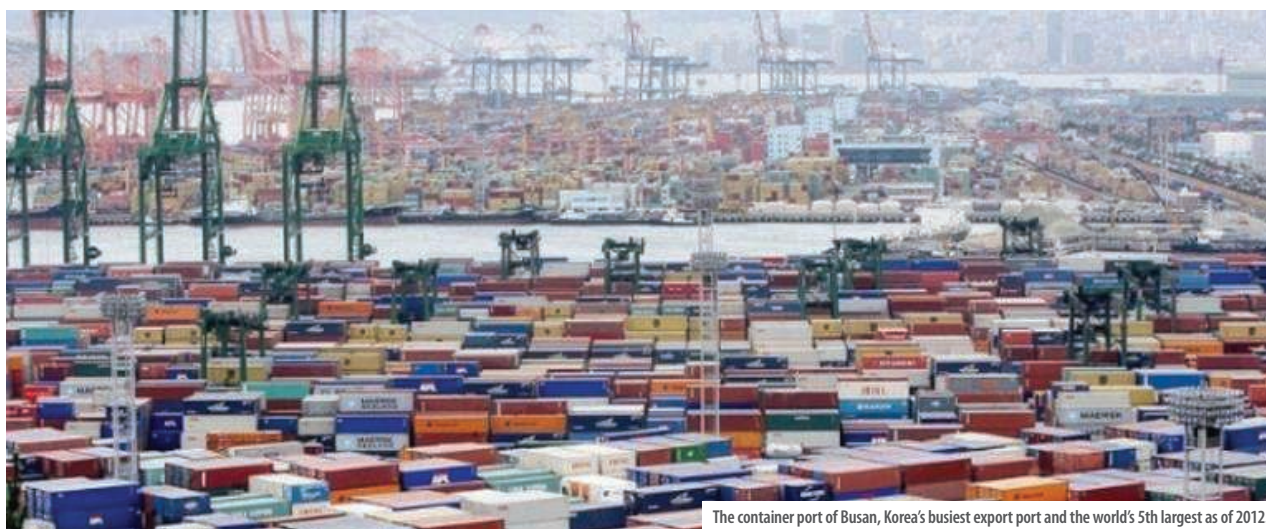
CIS region. The company has invested US\$228 million in the facilities. "We are watching the situation very closely for now," says the company.

In the meantime, LG Electronics has run the first Korean electronics manufacturing plant in Russia in Ruza since September 2006. The audio components, cleaners, air conditioners, monitors, and microwave ovens produced there are highly popular with Russian consumers nowadays. This means that any shrinkage in the Russian economy could result in substantial losses on the part of LG.

The Hyundai Motor Group has run a plant in Saint Petersburg since 2011, too. "The combined local production ratio of Hyundai and Kia is over 50 percent, and thus we are quite resistant to foreign exchange conditions, while the amount of annual exports to the Ukraine is limited to 7,000 to 8,000 units," the company explained, adding, "However, we will make thorough preparations to better cope with the fast-changing market situations."

The Korean stock market is also showing bearish movement, as the conflict between Russia and the G7 countries surrounding the annexation of Crimea is heating up alongside China's economic indices being below expectations. The global stock market is moving in the same direction. According to fund data provider KG Zeroin, the average rate of return of local equity funds fell 2.21 percent from the previous week as of the morning of March 14. The Korean Composite Stock Price Index (KOSPI) dropped 2.09 percent and the Korea Securities Dealers Automated Quotations (KOSDAQ) lost 1.33 percent during the same period.

The equity funds investing in Russia and emerging European countries plummeted for two weeks in a row due to the political uncertainties in Ukraine. Specifically, they lost 4.26 percent in the past week alone. The equity funds for emerging economies as a whole recorded a rate of return of negative 2.56 percent, too. 



The container port of Busan, Korea's busiest export port and the world's 5th largest as of 2012.

Everything Must Go

March Exports Up 5.2 Percent, Led by IT

Amid a flurry of unfavorable factors such as America's tapering of quantitative and the Ukraine situation, Korean exports are showing resilience. This export boom has been led by IT product exports such as semiconductors, smartphones, and other wireless mobile devices.

According to March import/export trends compiled by the Ministry of Trade, Industry and Energy on April 1, March exports were the second highest in history, with US\$49.76 billion, 5.2 percent higher year-on-year.

The highest monthly exports were in October 2013, with US\$50.48 billion.

March import was US\$45.57 billion, up 3.6 percent. Thus, March trade surplus was US\$4.19 billion, showing a surplus for 26 consecutive months.

Regarding the export status in the first quarter, the export increase rate rose from January's -0.2 percent to February's 1.5 percent, and then March's 5.2 percent, showing a marked upward trend.

The total export for the first quarter edged up 2.2 percent year-on-year to US\$138.34 billion. The first quarter's trade surplus is US\$5.904 billion.

The recent export boom is attribut-

able to IT product export such as semiconductors, wireless communication devices, and electronics, a big increase in flagship items such as cars, steel, and shipbuilding, and bullish exports to advanced markets such as the EU.

Semiconductors were solidified as the number one export item (around US\$14.3 billion) in the first quarter, on the heels of retaking the top position in three years last year, thanks to the increase in the unit price. Last year, semiconductors took up 10.2 percent (about US\$57.1 billion) of total exports, beating petroleum products (about US\$14.3 billion).

This year's semiconductor export increase rate showed two digits ever month, with 13.3 percent in January, 14.8 percent in February, and 14.1 percent in March.

The items with the biggest export increase rate were wireless communication devices. They posted 9.5 percent increase in January, 30.6 percent in February, an 32.1 percent in March. The first quarter's export in wireless communication devices was about US\$7.3 billion, 23.5 percent up year-on-year.

Exports in home appliances (US\$3.5 billion) in the period also went up 6.1

percent year-on-year.

Also joining the happy group were automobiles (6.1 percent), steel (3.6 percent), and shipbuilding (2.2 percent). However, export flagship items showed a setback in the first quarter including petroleum products (-7.2 percent), petrochemicals (-4.5 percent), and LCD (-12.7 percent).

By region, exports to industrialized markets such as Europe and America went up. EU exports showed a two-digit increase for three months in a row, with 23.3 percent in January, 10.6 percent in February, and 15.2 percent in March. Moreover, exports to the US, which temporarily curbed during January and February due to the cold wave, jumped 17.0 percent, attributable to favorable exports of consumer goods such as cars, wireless communication devices, and machines. As well, exports to Japan in March turned positive (1.1 percent) for the first time since January on the back of increased exports in steel and general machines.

Meanwhile, the Ministry of Industry expected this year's exports will break the record by posting US\$595.5 billion, up 6.4 percent year-on-year, with a trade surplus of US\$33.5 billion. 

Huge M&A Loss

Hyundai Group on the Brink Due to Unreasonable M&A

Decision-making errors are widely mentioned as one of the biggest reasons for the Hyundai Group's drop in credit rating to a junk level. It is said that the group lost hundreds of billions of won amid the unfavorable financial situation following the recent downturn in the global shipping industry, by taking over the Banyan Tree Hotel, a savings bank, and other questionable companies.

Securities market experts are focusing on the M&A history of the Hyundai Group surrounding its credit rating fall. Korea Investors Service demoted the credit ratings of Hyundai Merchant Marine, Hyundai Elevator, and Hyundai Logistics by three notches from BBB+ to BB+ on March 14.

The Hyundai Group acquired the Daeyeong Savings Bank and the Banyan Tree Spa & Resort in late 2011 and mid-2012, respectively. The cost of the acquisition was approximately 96 billion won (US\$89.8 million) and 160 billion won (US\$149.6 million) each. In fact, the absolute amount is not that large. Rather, the poor performance of the subsidiaries is the main culprit in the decline of the credit rating. Still, it is also problematic that the group rushed to the M&A market with its financial structure deteriorating at a rapid pace.

The group has recently put both the hotel and the savings bank back on the market in an effort to improve the financial structure, less than two years from the takeover. The consensus is that it will have to bear sizable losses in the sales. It is planning to dispose of Hyundai Securities and the renamed Hyundai Savings Bank as a single package. The price has yet to be determined, but is expected to be much lower than its 266 billion won (US\$248.7 million) investment in the savings bank.

The acquisition of the savings bank



The Hyundai Group headquarters building in Yulgok-ro, Jongno-gu, Seoul.


was based on the financial resources of Hyundai Securities, and thus has not dealt a staggering blow to the financial conditions of the group as a whole. What defies understanding is the takeover of the Banyan Tree Hotel.

The group purchased the hotel in June 2012 at a price of 165 billion won (US\$154.3 million). It procured 90 billion won (US\$84.2 million) from Hyundai Merchant Marine, Hyundai Elevator, and Hyundai Securities while borrowing the rest from banks. The year of 2012 was when its major subsidiaries were suffering from plunging performances. Hyundai Merchant Marine's debt ratio skyrocketed from 396 percent to 799.1 percent at that time, resulting in current operating losses of 509.6 billion won (US\$476.5 million) and a current net loss of 988.6 billion won (US\$924 million).

Likewise, Hyundai Elevator posted a current net loss of 41.4 billion won (US\$38.7 million) during the same period, although the operating profits reached 49.3 billion won (US\$46.1 million) due to the derivatives losses attrib-

utable to the decline in the stock price of Hyundai Merchant Marine and the loss on valuation of investment using the equity method of accounting. The company had recorded losses of 137.6 billion won (US\$128.7 million) in the previous year, too. Hyundai Securities' current net income was halved from the preceding year as well.

Even some watchers said that men behind the scene were involved in the M&A process that brought little actual benefit. The labor union of Hyundai Securities went on strike, calling this issue into question.

Now, the Hyundai Group is planning to sell not only the hotel and the savings bank but also the stock firm, which was a part of the bank acquisition. Hyundai Savings Bank is likely to be sold at a low price due to its sluggish performance. The Banyan Tree Hotel has too much debt, and is likely to contribute little to the cash flow conditions of the group. In short, both of the two M&A cases have turned out to be costly blunders. 



Stacks of South Korean won for delivery to commercial banks at the Bank of Korea's headquarters in Seoul.

High-flying Compensation

Tycoons' Annual Salaries Revealed

The annual salaries of the registered CEOs of domestic listed companies were revealed simultaneously on March 31, to conform to a reformed Capital Market Act forcing registered CEOs with over 500 million won (US\$469,500) in salary to include their pay in their business reports.

On March 31, the last day to reveal the salaries of major companies' CEOs, business circles seemed to be in disarray, since the salaries had never made public before.

Notable in the rankings were Jung Mong-gu, Chairman of Hyundai Motor Company (14 billion won (US\$13.1 million)), Gu Bon-mu, Chairman of LG Group (4.4 billion won (US\$4.1 million)), and Huh Chang-soo, Chairman of GS Group (3.9 billion won (US\$3.7 million)). Huh Dong-soo, Chairman of GS Caltex, posted a total of 10.1 billion won (US\$9.5 million), which included severance pay.

In particular, under criticism were SK Chairman Choi Tae-won (30.1 billion won (US\$28.2 million)) Hanwha Chairman Kim Seung-youn (13.1 billion

won (US\$12.3 million)), CJ Chairman Lee Jae-hyun (4.75 billion won (US\$4.5 million)), and Hyosung Chairman Cho Suk-rae (3.95 billion won (US\$3.7 million)), all of whom went through trials and investigations last year.

Choi Tae-won, who topped a list of salaries last year that included both company owners and salaried men, received a bonus of 20.7 billion won (US\$19.4 million) and a basic annual salary of 9.4 billion won (US\$8.8 million) from four affiliated companies within the SK Group. Chairman Kim Seung-youn had a similar case, who also went through a trial and treatment for an ailment. He took home 13.1 billion won (US\$12.3 million) from five affiliated companies in the Hanwha Group. CJ Chairman Lee Jae-hyun took home 4.75 billion won (US\$4.5 million) last year.

Some annual salaries were not disclosed, such as Korea's number one businessman Lee Geun-hee, chairman of Samsung Electronics, and Jung Yong-jin, vice chairman of Shinsegae Group, since they are not registered as CEOs and are therefore not mandated to sub-

mit their compensation.

Out of 30 domestic groups with owners, 117 compensated their CEOs with over 500 million won (US\$469,500), and out of these, 67 companies had their owners as registered CEOs, accounting for a little over half of the total. Quite a few owners stepped down or did not act as a registered CEO to avoid their annual salary disclosures.

For this reason, out of the Samsung family's current owners/CEOs, only one revealed his salary, who was Lee Bu-jin, the president of Shilla Hotel.

Excluded from the list were Samsung Electronics Vice Chairman Lee Jae-yong, son of Chairman Lee Geun-hee, and Samsung Everland Fashion Business President Lee Seo-hyun, brother of Lee Bu-jin, since they are not registered CEOs.

KOSDAQ-registered SM Entertainment only disclosed the salaries of five professional executives, including Kim Young-min, while Chairman Lee Sooman did not reveal his, since he is a non-registered CEO.

In business circles, it has been point-

ed out that the owners excluded from the annual salary disclosure list are in fact receiving hefty CEO-level salaries. Owners also pocket a lion's share of dividends annually as well, on top of their annual salaries.

In the meantime, the list will get a lot shorter next year, since there will be a lot fewer owner executives, as many are stepping down such as SK Chairman Choi Tae-won, Hanwha Chairman Kim Seung-youn, and CJ Chairman Lee Jae-hyun who are resigning as registered CEOs citing recent police investigations, etc.

A high ranking CEO at one of top 10 groups said, "To my knowledge, a lot of major companies' owners are considering resigning as registered CEOs."

The disclosure also met with controversy over the appropriateness of the compensation. For instance, Kumho Petrochemical Corporation Chairman Park Chan-gu received 4.2 billion won (US\$3.9 million) last year. However, the company posted a net loss of 49.6 billion won (US\$46.6 million) the

same year. It seems inappropriate for Chairman Park to receive an annual salary amounting to 70 percent of the total executive pay limit under these circumstances. Company President Kim Sung-chaе only received 780 million won (US\$732,420), meaning that the Chairman pocketed about 6 times higher salary than the president, even though they are both executives of the same company.

Mando Chairman Jung Mong-won received 2.4 billion won (US\$2.25 million) last year, which is over three times the salary of the same company's president, who only took home some 700 million won (US\$662,345).


Moreover, in the business world, there has been concern that the annual salary revelation could ignite anti-corporate emotions and hatred against the rich. Considering the Korean mentality that places a heavy emphasis on egalitarianism, the salary disclosures may spark anti-corporate sentiment.

The politicians cited management transparency when justifying the pas-

sage of annual salary disclosure act in April 2013. The political community pushed the bill saying, "There is no reason not to disclose major CEOs' salaries, seeing that advanced nations such as the U.S. and Europe have been doing it."

In the U.S., it is compulsory for listed companies worth more than US\$700 million to reveal salaries of five CEOs, including the President and Chief Financial Officer (CFO), whether they are registered or not.

Japan mandates the disclosure of salaries of executives, regardless of being registered or not, if the annual pay exceeds 1 billion yen (US\$9.7 million) including the executive's salary, stock options, bonuses, and severance pay.

One executive of the top four group put it, "It is true that people like Lee Geun-hee and Jung Mong-gu contributed a lot of the nation's industrialization. It seems unreasonable to condemn these people for getting paid a lot of money without recognizing their achievements." 

Salary of Female Executives

Women Account for Only 2% of Registered Executives with Over 500 Million in Salary


Only 1.9 percent of registered executives with an annual salary of at least 500 million won (US\$481,000) are women. Out of those, 12 are family members of corporate owners, with the only exception being SM Entertainment Director Nam So-young.

Chaebul.com analyzed the individual salaries of registered executive members of 2,148 companies that have submitted their business reports for the fiscal year of 2013 and announced that a total of 699 executives received 500 million won (US\$481,000) or more in salary last year.

Only 13 women put their names on the list. Shin Young-ja, chairperson of the Lotte Scholarship Foundation, received 5.033 billion won (US\$4.842

million) last year, putting her at the top. She is followed by Hotel Shilla President Lee Bu-jin with an annual salary of 3.009 billion won (US\$2.894 million). Nam So-young, SM Entertainment director, recorded 592 million won (US\$569,504).

The total number of executives who make more than 500 million won

(US\$481,000) is 699, or 5.5 percent of the 12,748 total registered executives. At Samsung Group, 69 registered executives made the mark, followed by SK (24), Hyundai Motor (23), POSCO (21), LG (18), Lotte (15), GS (12), Hanwha (11), Hyundai Heavy Industries (9), and Hanjin (4). 



Shin Young-ja (front row middle), chairperson of the Lotte Scholarship Foundation, poses with her scholarship recipients at the Lotte Hotel in Sogong-dong, Seoul, on Feb. 25, 2014.

Outperforming Japan

Korea Occupies Runner-up Position in Global Semiconductor Market



According to the findings of market research firm IHS Technology announced by the Ministry of Trade, Industry and Energy on March 24, Korea snatched second place from Japan in the global semiconductor market, 31 years after Samsung Electronics announced its intent to enter the market


in 1983.

Last year, local companies' annual sales of semiconductors stood at US\$51.516 billion, accounting for 16.2 percent, thus beating Japan with US\$43.432 billion of sales and 13.7 percent market share.

While Korean firms' market share

increased from 14.2 percent in 2010 to 16.2 percent in 2013, Japan decreased from 20.3 percent to 13.7 percent in the same period. The US nabbed the top spot with 52.4 percent, whereas the fourth and fifth spots were taken by the EU (8.7 percent) and Taiwan (6.5 percent).

In spite of the runner-up position, experts are saying that the nation's semiconductor industry is leaning too much towards memory chips.

The sales of memory chips reached US\$34.297 billion, making up 66.5 percent of the total. The local memory chip industry made up 52.4 percent of the global market, which placed Korea in the number one position. However, the local system semiconductor market, which is considered to be a next-gen semiconductor sector, comprised only 5.8 percent, and therefore ranked at the bottom of major countries. Korea's discrete and optical devices represented 10.4 percent of the total, and thus there is still a 31.5 percent gap, with top-ranked Japan in the global market. 

Narrowed Gap

Samsung Narrowed the Gap with Intel by 1.1% in Global Chip Market Share in 2013



Samsung Electronics retained the No. 2 position in the global semiconductor market for the second consecutive year in 2013, while narrowing the gap with Intel.

According to data compiled by IHS iSuppli on March 23, Samsung's semiconductor sales rose 8.2 percent year-on-year to US\$33.82 billion last year, with its global market share increasing to 10.6 percent from 10.3 percent.

In contrast, Intel's sales fell 0.9 percent year-on-year to US\$46.98 billion last year, with its market share dropping to 14.8 percent from 15.6 percent.

Consequently, the market share gap narrowed down to 4.2 percentage points in 2013 from 5.3 percentage points in 2012.

IHS iSuppli said the narrowed gap resulted from a surge in Samsung's sales of chips due to the expanding smartphone market, while sales of Intel's chips was slow, mainly due to the stagnating personal computer market.

Another Korean chipmaker SK Hynix recorded sales of US\$12.81 billion last year, up 42.8 percent from a year ago, with its global market share rising to 4 percent from 3 percent.

Last year's global chip market reached US\$318.15 billion, up 5 percent from the previous year.

In the memory chip market, Samsung retained its top position last year, with sales rising 15.7 percent year-on-year to US\$21.67 billion. Its market share, however, fell to 33.1 percent from 35.4 percent.

SK Hynix ranked third with a 19.1 percent market share, following the second-ranked Micron Technology with a 21.6 percent market share. 

Flash Factory

Samsung Electronics Kicks Off Semiconductor Factory in Xian in May

Samsung Electronics will launch its semiconductor factory in Xian, China, in May, in hopes to quickly respond to soaring demand for NAND flash memory in China.

Kim Ki-nam, President of Samsung Electronics' Device Solution memory business, disclosed the news while meeting the press at Samsung building in Seocho-dong, Seoul, on March 26, saying, "The Xian semiconductor factory will start its commercial run in May."

The factory previously did a test run last December. It is a pre-step line which is a core semiconductor process, the first semiconductor manufacturing line for Samsung to build in China, and the second overseas factory after the one in Austin, Texas, U.S.

The tech giant is to inject a total of US\$7 billion over five years, including the initial investment amount of US\$2.3

billion in the factory, making it the biggest investment for the company into China in its history.

The factory will manufacture 3D V-NAND, which is Samsung's proprietary developed technology. Its rivals such as Japan's Toshiba and America's Micron failed to develop the product, and the initial production is forecast to be 70,000 sheets a month, based on putting in a 300mm wafer.


Samsung is also constructing a NAND flash post-step line that is to be completed at the end of the year. It is located close to its Xian factory, and the line's initial investment is about US\$500 million.

According to TrendForce, a market research provider, this year's NAND flash market size will reach US\$28 billion, 13.3 percent up from last year, marking two-digit growth for two con-



Samsung Electronics' Xian semiconductor plant in Xian, China, began construction in September 2013.

secutive years. The demand increase is supposedly derived from the demand rise in solid state drives (SSD).

A Samsung Electronics associate said, "NAND demand is skyrocketing from Chinese electronics companies. We secured a stable production system thanks to the full-scale operation of Xian semiconductor plant, which will help reinforce supporting our client companies and quickly adapting to market shifts." 

Attacks on Korean Chipmakers

NPEs Zeroing In on Samsung Electronics and SK Hynix



Non-practicing entities (NPEs) are keeping Samsung Electronics and SK Hynix in check with their foreign rivals in the memory semiconductor industry.


DSS Technology Management, one of the world's largest NPEs, has recently filed a lawsuit against Samsung Elec-

tronics with the District Court for the Eastern District of Texas. The litigation surrounding semiconductor processing techniques covers TSMC of Taiwan and NEC of Japan as well, but the consensus is that Samsung Electronics is the main target.

SK Hynix is under attack by Toshiba and SanDisk. Toshiba sued the Korean company for technology theft by a former employee. The trillion won case is currently under investigation by the Japanese police. SanDisk, in the meantime, brought a lawsuit with the Santa

Clara Superior Court for allegations of tech leaks. It called for a ban on the sale of flash memory products and claimed damages, too.

Industry experts are saying that these moves are designed to strangle Samsung Electronics and SK Hynix. "The sales activities of both companies are likely to be restricted, at least to some extent, in the United States and Japan, where the patent litigation is going on," one of them explained.

Both SK Hynix and Samsung Electronics are aggressively increasing their presence in the global semiconductor market. According to DRAmEXchange, the latter accounted for 36.68 percent of the DRAM market and 38.05 percent of the NAND flash market last year. SK Hynix recorded a share of 26.98 percent and 13.1 percent each to take the second place. They are planning to respond to current litigation after a thorough examination of the situation. 

NAND Market

Samsung Maintains Top Spot in Global NAND Flash Memory Market in 2013

Last year, Samsung Electronics maintained its position as the top-ranked NAND flash memory chipmaker in the world, helped by the exponential growth of the SSD market.

According to market research firm IHS on April 6, the global SSD market was estimated at US\$7.996 billion in 2013, a 43.4 percent year-on-year gain from the US\$5.577 billion of 2012. The market is expected to expand 39.1 percent year-on-year to reach US\$11.119 billion this year.

Samsung maintained its top spot

in the SSD market last year with a 26 percent market share by turning over US\$2.52 billion in 2013, a year-on-year increase of US\$1.27 billion. HIS predicted that the Korean tech giant would post US\$2.912 billion in sales this year.

As a result, the firm retained its top NAND flash memory chipmaker spot in 2013 with sales of US\$8.961 billion and a 32 percent market share, outperforming Toshiba (US\$8.8 billion in sales, a 29 percent market share), Micron (US\$4.21 billion in sales, a 15 percent market share), and SK Hynix (US\$3.15



billion in sales, an 11 percent market share).

An industry source said, "Samsung is likely to lead the SSD and NAND flash memory markets for another three years," adding, "Therefore, it is necessary for SK Hynix to fiercely compete with Toshiba and Micron." 

12GB DRAM

SK Hynix Develops World's First 128GB DDR4 Memory Chip

SK Hynix announced on April 7 that it has developed the world's first 20-nanometer-class 128GB DDR4 memory chip.

To date, only 64GB modules have been available, but 20nm 8GB chips were utilized to double the capacity on a single chip with Through Silicon Via (TSV) technology. TSV technology is a high-performance technique used to create 3D packages that enable a vertical electrical connection passing through two or more chips. It can improve performance and reduce the size of chips.

The new memory module runs at 2133Mbps, 1,333Mbps faster than DDR3, and can handle 17GB of data per second through a 64-bit Information Outlet (I/O), and only requires 1.2V compared to 1.35V of DDR3.



SK Hynix has started to mass produce this 128GB DDR4 memory module this month.

The world's second-largest memory chip manufacturer is planning to mass-produce the new product starting in the first half of next year. SK Hynix anticipates that it will be able to further

strengthen its technological leadership in the DRAM market with the development of industry's first 64GB and 128GB modules. 

Advanced Memory Cards

Samsung Develops New Memory Card Lineup using 5-Proof Technology

Samsung Electronics announced on April 7 that it has just released a new lineup of memory cards with better performance and design to target the fast growing digital camera market, and will expand its memory card business this year.


Samsung's memory card lineup features Standard, Plus, and Pro versions of all of its MicroSD cards used in smartphones and tablet PCs, and SD cards used in digital cameras and camcorders.

As a UHS-1 product, the 64 GB card realizes a speed of 90 MB/s Read and 80 MB/s Write (based on the Pro version),

and thus it is ideal for continuous shooting of 20 or more megapixel photos. In addition, it is now possible to record full-HD videos for more than 10 hours (670 minutes) using the latest compact camera equipped with this memory card.

In particular, a "5-Proof Technology" was used in the new lineup to protect data from water, heat, impact, X-rays, and magnetism. As a result, Samsung's new memory cards can endure 24 hours of being submerged in water, and survive the perils of airport X-ray machines. On top of that, they are resistant to magnetic fields greater than

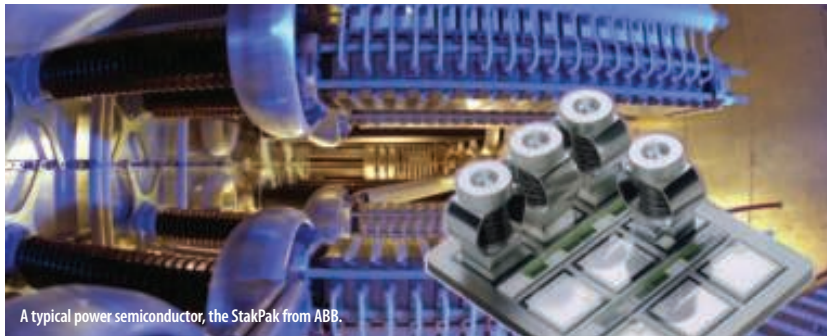
15,000 gauss, and extreme temperature at -25 degrees to 85 degrees Celsius. The memory cards can also sustain impacts of a two-ton truck (MicroSD cards excluded).

The Korean tech giant is going to introduce new products in the global market starting this month. 



Industry Opportunity

Need to Foster Power Semiconductor Industry



A typical power semiconductor, the StakPak from ABB.

It has been pointed out that the domestic power semiconductor industry should be stimulated, amid expectations that the demand for power semiconductors, an essential component of electronic products, will keep rising.

Ahn Ki-hyun, director of the Korea Semiconductor Industry Association (KSIA), stressed that "The world's power semiconductor market is seeing rapid growth due to the smart grid, energy storage systems (ESSs), and electric cars, but domestic companies'

world market share is a tiny 1.1 percent. To enhance the domestic power semiconductor's competitiveness, we need to coordinate research development, human resources support, and national policies." The statement was made during the 1st Semiconductor Technology and Market Trend Seminar that was hosted at KSIA, in Pangyo, Gyeonggi Province.

A power semiconductor is a kind of analog system semiconductor, and is used to control electric power or improve


electricity consumption efficiency.

According to the association, the world's power semiconductor market size is expected to grow from last year's US\$30 billion to 2016's US\$35 billion.

However, domestic companies only account for US\$330 million of the total.

Specifically, as of 2012 the world market was shared by IT with US\$3 billion, Infineon with US\$1.84 billion, ST with US\$1.83 billion, and Mitsubishi with US\$1.29 billion, attesting to foreign firms' predominant lead. None of the Korean firms made the top ten.

The director explained, "The domestic power semiconductor technology which level stands at 70 percent of that of advanced countries has been stagnant for the last 10 years. Amid advanced countries' steady research development, the technological gap will be exacerbated."

The U.S. will infuse US\$70 million for the next 5 years in power semiconductor areas upon establishing a next-generation power electronics research organization in January 2014. However, our government does not have any specific measures as to nurturing the power semiconductor industry as of now. 

Competition in Wearable Market

Global IT Giants Competing for Wearable Device Market

Wearable devices are emerging as a next-gen IT industry, following smartphones. Global IT companies and semiconductor memory chip makers have rolled up their sleeves to dominate the wearable market, which is considered to be a new blue ocean.

Initiated by Google's Glass and Samsung Electronics' Galaxy Gear, the wearable market has seen a number of new entrants so far this year including Apple, LG Electronics, Sony, Epson, Intel, and Qualcomm, ushering in a new era of intense market competition. Their global market entry has contributed to the fact that the scope of the market has been expanded to a whole range of areas such as content, components, and networks for wearable devices.

According to industry sources on March 16, mobile device makers are actively seeking to penetrate the market. Hand-set manufacturers, which have been riding high until recently thanks to increased smartphone demands, are now paying attention to the wearable market as their new profit source, owing to slowing growth caused by market saturation. Developers of operating systems, smartphone chipset suppliers, home appliance manufacturers, and mobile carriers are pushing into the market as well. In particular, industry analysts are saying that as technological barriers for wearable devices related with materials and components have been mostly removed, the global wearable technology ecosystem of devices, platforms, and components will soon be completed. It means that the expanded market now encompasses various fields such as content, platforms, networks, and devices from mobile chip makers to network service providers.

The world's number one AP maker Qualcomm debuted its first smartwatch, the Toq, in the market last year. NTT DoCoMo, the largest mobile carrier in Japan, is reportedly intensifying efforts to develop Hands-free Videoglass, which are planned to be smart eyeglasses. Cisco, on the other hand, is making an effort to develop Wearable IPS, which provides a single gateway to the Internet or wireless network. Epson already revealed its second-generation augmented reality device, the Moverio BT-200 smart glasses, at CES in Las Vegas.

Google is making a strenuous effort to develop its own




Qualcomm's Toq smart watch.

smartwatch as well in partnership with occasional Nexus hardware buddy LG. The search engine giant is going to unveil its Android software development kit (SDK) for wearables at the end of March, ahead of actual devices, in order to gather "plenty of feedback," since the company's smartwatch will likely be the first device to run its new software. It shows Google's ambition to make inroads into the wearable market, following its penetration into the smartphone market.

Samsung also showed its determination to dominate the wearable market by showcasing the Gear 2 and the Gear Fit, which are successors to the Galaxy Gear, at MWC2014 in Barcelona in late February. However, Apple's iWatch is the one that is receiving a lot of attention in the industry, since the iWatch is rumored to be Apple's first foray into wearable technology. The launch of Apple's smart wristwatch, which is expected in the latter half of 2014, is likely to serve as an opportunity to turn the spotlight on the wearable device market. The expansion of three major IT companies – Samsung, Apple, and Google – is projected to have another profound effect on the IT and electronics industries.

Market research firms are optimistic about the outlook for wearable devices. "The shipment volume of wearable devices is forecast to grow as much as 155 percent, from 51,200 units in 2013 to 130.7 million units in 2018," said IHS iSuppli in its report on last year's global wearable technology.

The driving force for explosive growth in the wearable device market is mainly technological breakthroughs, since components and materials are getting smaller. Moreover, an increasing number of technologies for flexible displays and batteries are commercialized.

Currently, there is no dominant player in the market with many global IT firms. Market research firm Canalsys announced that Samsung accounted for 54 percent of the global market for wrist-worn Smart Band devices in the latter half of 2013. However, the size of the market is still minuscule. Furthermore, there are no clear criteria for classifying and assessing wearable products. 

Aiming High

Samsung, LG Dead Set on Smartphone Sales Goals

Samsung Electronics is zeroing in on hitting annual sales of 500 million cell phones this year, with its worldwide debut of the Galaxy S5 on April 11. LG Electronics is also planning to hike their world market share to the 5 percent range with the introduction of their strategic phone, the G3, in the latter half of the year.

In particular, both handset giants will take it up a notch in the smartphone competition, with Samsung revealing its next model, the Galaxy Note 4, in September, and LG unveiling their strategic phone G3 in August at the earliest.

According to the industry on March 30, both companies recently held cell phone strategic meetings and established goals to exceed 500 million sets in sales and to reach 5 percent in market share, respectively.

It is a common belief among a lot of people that Samsung Electronics is on the verge of a crisis, now that the global cell phone market is beginning to be saturated.

Therefore, this year's direction for the cell phone business, to solidify its global top spot, Samsung needs to reinforce its market dominating competitiveness, to widen the gap with the runner-up.

Smartphone market share was looking different last year.

With this in mind, the global giant set a management goal to hike up its market share to 30 percent by exceeding the sales of 500 million, to be the first in the industry. Particularly, it is set to sell more than 100 million smartphones, which account for 70 percent of all cell phones in each quarter, so that the smartphone's global market share will be 40 percent range.

As for the priority strategy for expanding the market share, a big gun was brought out; price competitiveness.

Its plan is to secure its lead by expanding product lines by increasing popular models that will keep high resolution specifications while giving up on pursuing premium price policies. On top of this, it will also beef up its global production belts by increasing productions in overseas local facilities such as Vietnam.

LG, in contrast, plans to exert itself to exceed 100 million sets in sales this year. LG's plan is to solidify its number three spot by exceeding the market share of 5 percent. For this goal, it is eyeing at expanding R&D investment and upgrading quality. Even though its cell phone division is seeing red, it will invest more than 2.5 trillion won (US\$2.35 billion) this year.

The company has also set out to enlarge its production by increasing its overseas production to more than 65 percent of the total, which will help to lower the production costs and pro-



Global Smartphone Market Share in 2013

(Unit: %, million phones)

Samsung	1st	24.5% (446.7)
Nokia	2nd	13.8% (251.0)
Apple	3rd	8.4% (153.4)
LG	4th	3.8% (7.0)
Hawei	5th	3.0% (5.5)

actively adapt to shifting global markets.

Another plan up its sleeve is that the company will set up a system that allows timely production catering to the global market situation by producing popular, reasonably-priced, but high-quality models, so that it can fend off Chinese companies that are closely behind with their low-end models.

Based on these tactics, LG Electronics is, more than ever, determined to solidify its "two track" strategy of securing profitability and growth, by reinforcing its "G Series" lineup this year. ■

3D UHD TV

LG Display Zeroing In on 3D UHD TV Market



LG Display Co. proclaimed this year as the new “first year of 3D,” as it heralds a new era of Ultra High Definition (UHD) TV. The TV giant vows to lead the global 3D market this year by focusing on China.

Ever since the first 3D TV rolled out in 2011, the company has enjoyed its status as a forerunner in 3D-related technology, but it hasn’t been able to capitalize on it owing to the stagnancy of the 3D TV market. The company is aiming at reigniting 3D boom by using the popularity of UHD TV.

LG Display, after proclaiming 2014 as the new “first year of the 3D era” on April 15, announced its plan to spearhead a global promotion in a bid to expand 3D markets.

The company, after introducing 3D TV in 2011, failed to lead the market because of a lack of 3D content, and other reasons. However, it anticipates that 3D TV will get a second break, as big screen UHD TVs are catching on and 3D content is becoming more common.

An LG Display associate said, “As big screen and high-definition UHD TVs are getting more popularized, consumers will care about the differences in resolution and picture clarity when they choose the product. 3D will be in the spotlight.”

In fact, out of 1.6 million UHD TV sets that were sold in the world, 1.59 million sets (99.4 percent) turned out to have 3D functionality, according to DisplaySearch.

Hana Daetoo Securities Co. predicts this year’s UHD TV sales at 17 million sets, 10 times that of last year. At the same time, 30.4 percent growth is anticipated for 3D TV panel sales, from last year’s 5,021 sets to 6,547.

The TV company is banking on the fact that their next generation Film-type Patterned Retarder (FPR) 3D method can maximize the picture sharpness of UHD.

A company associate explained, “UHD TV has four times greater resolution vis-a-vis full HD TV, and can deliver a superb 3D immersion effect.”

The company stressed that their TV provides a sharper picture when compared with their competition’s Shutter Glass (SG) method, as their 3D FPR method can maintain a screen scanning rate of 240khz, equivalent to that of 2D.

The company is determined to launch a full marketing effort for 3D experience promotion and 3D content distribution marketing by concentrating on countries where UHD is popular and 3D broadcasting infrastructure is under construction, which includes China, Russia, Brazil, Turkey, and Korea.


The TV company is hosting a 3D experience event in Turkey in time for the opening of the movie “Noah,” and is slated to open a 3D experience zone using UHD TV at Beijing International Film Festival, scheduled to open from April 17.

In particular, the company plans to offer a store demonstration and year-round experience zone where consumers can experience 3D TV in China, a country noted as the most aggressive in 3D technology and market expansion.

It also is planning to run UHD and 3D experience zones at Brazil’s Sao Paulo International Film Festival in October this year, Korea’s Busan International Film Festival, and Cirque du Soleil to be performed in Russia.

The company also emphasized that it is at the forefront in developing 3D TV without glasses, which were touted as the biggest hurdle in expanding 3D TV markets.

At the Consumer Electronics Show in January 2014, the company showcased a 55-inch glassless Lenticular Film Type 3D TV, which has a much enhanced viewing angle and a better feeling of immersion.

The company secured commercial-use, fixed lens, glassless 3D panel technology, and is in the process of developing Switchable Lenticular Lens type technology where 2D and 3D can be freely switched back and forth on one TV set. 



LG Display’s 84-inch 3D home theater system with accompanying glasses on display at the Society for Information Display expo in Seattle, Wash.

Focusing Overseas

System Integration Companies Turning to Overseas Markets



Local system integration (SI) companies are striving to open up overseas markets to deal with the restriction on their participation in public sector projects and internal transactions. The saturation of the domestic IT market is urging them to make inroads abroad, too.

For example, Samsung SDS is reshaping its corporate structure to concentrate on overseas business and turn itself into a global leading ICT service provider. It has acquired Samsung SNS to shore up its communications business as well, while expanding its logistics IT services abroad.

These days, Samsung SDS is distinguishing itself in the Smart Converged Space (SCS) Project, which is a part of the Smart Town Project, and won the iF Design Award in January with its Knowledge Forest Service for knowledge sharing, which constitutes the SCS Project. It has recently set up the Global Delivery Center in China, too.

In the meantime, LG CNS recently won the e-ticketing project in Athens, Greece at a cost of 200 billion won (US\$187 million) to become the first Korean SI firm in the European mass transit card market. It is also planning to obtain the 1.6 trillion won (US\$1.496 billion) transit card project launched in London last year. The company has already passed the conformance test of the Smart Fare Payment Project and is competing against American and German firms. The selection of the contractor is scheduled for late this year.

At the same time, LG CNS is going to work together with Russian companies in solar power plant construction projects to build facilities with a combined capacity of 500 MW by 2020 at an investment of approximately 1.8 trillion won (US\$1.683 billion). LG CNS obtained the order for a US\$35 million ICT education infrastructure construction project in Columbia in January this year, too.


SK C&C is moving to shift the focus of its global business from social overhead capital (SOC) to manufacturing,

service, banking, and many other sectors requiring IT services. In addition, it is going to launch new programs in China, Central Asia, Southeast Asia, Africa, and the Middle East so as to boost its global sales. The company recorded 176.4 billion won (US\$164.9 million) in overseas sales in 2013 to post a year-on-year growth rate of as high as 57 percent.

In this context, SK C&C will expand its global mobile commerce business into the smart card sector. It displayed its global mobile commerce solution CoreFire along with various NFC-on-SIM card products, which are the key to NFC-based mobile payment services, at the Mobile World Congress (MWC) held in Barcelona, Spain in February this year.

POSCO ICT is currently running overseas subsidiaries in places like China, Vietnam, Indonesia, and Brazil. Last year, POSCO ICT won an urban railway construction project in Vietnam at around 100 billion won while taking part in steel mill infrastructure projects underway in Brazil, Vietnam and Indonesia.

This year, the company supplies steel industry logistics solutions and micro pulse systems (MPSs), which are a type of electric precipitators, to the Chinese market. It is going to increase its presence in the SOC sectors in Southeast Asia as well.

Ssangyong Information & Communication Corporation is a company specialized in sports SI. It developed and managed the On-venue Result (OVR) systems for the 2013 Kazan Universiade, provided the event management systems for the World Taekwondo Federation, and operated the OVR systems for Nanjing Youth Asian Games 2013. It is currently working on operating systems for the 2014 Commonwealth Games in Glasgow and the 2016 Rio Olympics. Hyundai Information Technology is participating in financial system establishment and management projects in Vietnam while setting up e-government and portal systems in its public sector. 

OS Dependence

Korea, China with Same Plan for OS Development, but Different Results

The Korean and Chinese governments both adopted a policy to develop a new operating system (OS) around the same time. At that time, their OS development plans were equally criticized for being unfeasible.

However, those plans have generated different results after three years. Korea's plan didn't bear fruit, whereas China successfully developed its own mobile OS, dubbed the China Operating System (COS), last January. The software industry thinks that continuous investment in developing an OS is needed for the long term, since the area has the potential to become a foundation of the industry. In addition, its influence is deemed to be far-reaching.

In 2011, the Korean government announced its intent to develop its own mobile OS to challenge Google's Android and Apple's iOS. The Ministry of Knowledge Economy – later known as the Ministry of Science, ICT and Future Planning (MSIP) – came up with an idea for OS development in the belief that the global mobile market's

center of gravity shifted away from mobile devices towards software. The government created a consortium with handset makers such as Samsung Electronics and LG Electronics, and made a specific plan to complete the project by 2014 with an investment of 54 billion won (US\$50.1 million).

Nevertheless, the OS project was quietly called off following a public hearing. It was largely due to opposition from the industry and a series of criticisms on the feasibility of OS development. On top of that, Samsung and LG did not show much interest in the project. The 50 billion won of budget for the project was transferred away.

The software industry was divided over the decision. Some said that the withdrawal of the project was the right decision owing to its unrealistic nature, while others believed that the project was necessary to have an alternative to Android or iOS.

An official at MSIP said, "The OS project was suspended early, because many pointed out various problems," adding, "Since it was not realistic to develop an OS, the government decided to focus on strengthening other software."

Nonetheless, China's successful development of its own OS, and the end of Microsoft's official support for Windows XP, have ignited renewed attention to the country's 2011 project.

In the same year, China pursued an OS project to reduce its heavy reliance on Microsoft's Windows OS, just like Korea. At the beginning, the project was also criticized for being incomplete and unrealistic. The Chinese government developed a Linux-based operating platform for PCs after years of research

and development, but it was considered to be a failure. The OS was just not very useful in the end. The government, however, intensified efforts to develop an OS, and thus it was able to unveil its own mobile OS last January. Beijing is planning to roll out smartphones with COS built-in this year



The China Operating System logo and screenshots.

by supplying the mobile OS to major smartphone manufacturers.

As a result, many in the local software industry believe that the government should expand its support for OS development. They think that Seoul ought to play a central role in the developmental effort and try to attract as many companies as possible, because a large number of participants are essential for the effective development of an OS.

An industry source explained, "Most of the government's IT-related policies are aimed at generating outcomes in the short term. A new government is more likely to discontinue support for long-term projects initiated by the previous administration." The source added, "Our country could've been successful in the development of our own OS, just like China, if we had taken a long-term approach to the issue." ■

Certificates Gone

Locals to be Allowed to Shop Online without Digital Certificates



The Korean government will revise the accredited certificate system so that locals as well as foreigners can purchase products on the Web more easily. The Financial Services Commission and the Financial Supervisory Service announced on March 26 that they will allow locals to shop online without digital certificates from June.

Recently, President Park Geun-hye said that Chinese consumers who tried to buy goods shown in Korea TV

dramas failed to do so due to the digital certificates required by local online shopping malls. Since the remark, the government has moved to let foreigners shop online without the certificates.

This has led to the criticism that the measure is reverse discrimination against locals, and the government has decided at this time to apply the measure to both foreigners and locals. It is said that the government is also going to allow internationally used credit cards, such as VISA and MasterCard, as a way of purchase.

“The certificate is to be removed on home shopping sites and the like, but may remain in certain sectors if necessary,” said the financial authorities, adding, “Our focus is the convenient use of online shopping by everyone.” **OK**

Web Standards

Korean Gov't to Develop Security Tech for HTML5



The Korean government is set to go ahead with developing technology that can enhance security for HTML5. Its plan is to push the new technology to make it an international standard rather than just a domestic one.

The Korea Internet & Security Agency (KISA) announced on March 27 that it will spearhead an “HTML5 security technology standardization project” to resolve HTML5’s loopholes and standardize security technology.

With the infusion of 30 million won (US\$28,170), this project will bear fruit in December this year, after selecting an enterprise to be in charge of the tech development next month.

HTML5 technology has been considered as an alternative to ActiveX since the successful development of an

HTML5-based accredited certificate as an alternative. The government is looking at securing a global lead in technology, on top of constructing a safe Internet environment, by developing a new security technology.

KISA, through the project, will develop technologies such as installing access control for Cross Origin Resource Sharing (CORS) and the prevention of Cross Site Scripting (XSS) through HTML5’s new tag/property.

In particular, the agency will promote the technology to be made into a national standard via the Telecommunications Technology Association and later propose it as an international standard. **OK**

Alternative to ActiveX

Korean Gov't Trying to Do Away with ActiveX



Minister of Science, ICT and Future

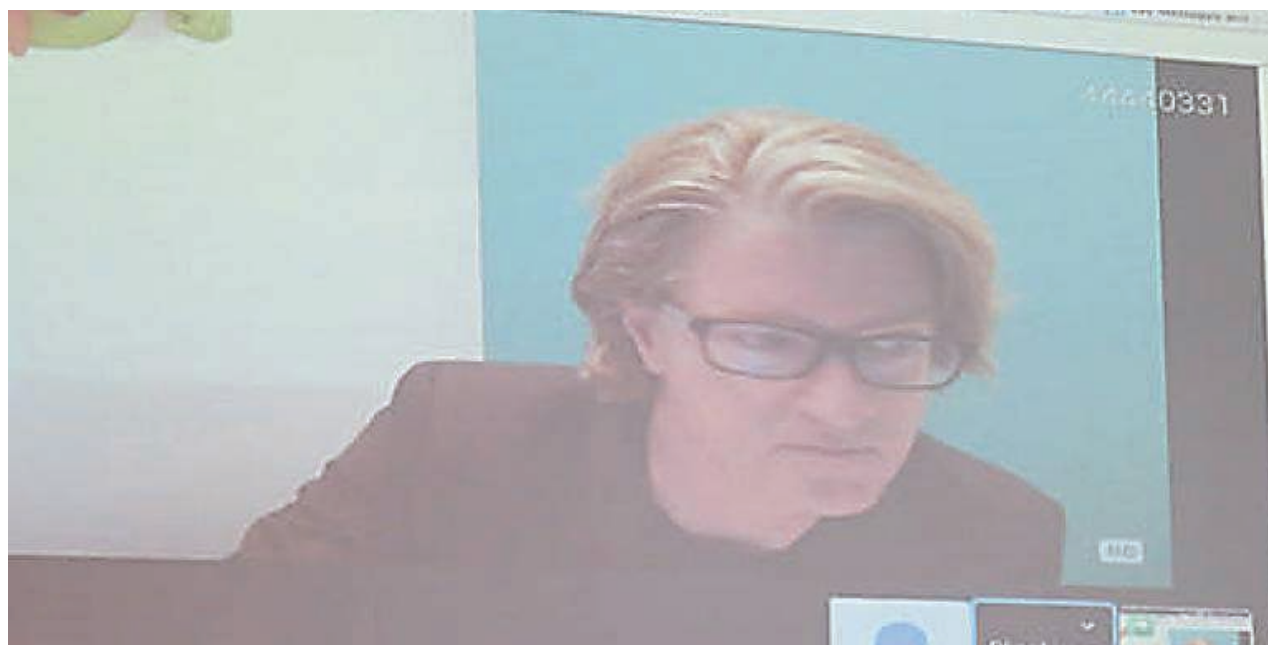
Planning Choi Moon-ki mentioned the digital certificate issue at a press conference held on March 24 to celebrate the first anniversary of the ministry. “We will prepare an environment in which an accredited certificate can be used without ActiveX until the development of an HTML5-based framework is completed within this year,” he said.

His remark shows how much the government is concerned over digital certificates, which have recently been mentioned by President Park Geun-hye as the first deregulation target. She has stressed that the certificate should be eliminated to deal with the online trade deficit and the slow progress of the penetration of global e-commerce. These problems cannot be rooted out by just removing the certificate, though.

Accredited certificates will remain essential unless the Internet environment of Korea, in which most services are available only after identification, is changed from the ground up. If only the certificates are removed, more confusion is likely, with the intended result still far away.

“The accredited certificates are a sort of electronic seal and we are still in need of it,” the minister explained, continuing, “Otherwise, problems would arise in online banking and e-commerce, because it is the most secure platform as of now.”

Experts point out that the controversies surrounding ActiveX and Web standards are also auxiliary to the deep-rooted identification tradition in the local Internet environment. “Online identification procedures have to be overhauled from the very beginning,” said one official. **OK**



Threat to Kakao, Naver

Google to Actively Support Korean Mobile Game Developers

Google Korea's efforts to provide support for Korean mobile game developers' entry into the global market through Google Play has kicked into high gear. However, the industry considers the move part of Google's strategy to check the influence of local mobile game platforms such as Kakao-Talk, Line, and Band, and to target the local market, which is one of Google Play's top five markets.


Google Korea announced its business results and future plan at a press event titled "Games with Google Play" at its office in Yeoksam-dong, Seoul, on March 31. Chris Yerga, engineering director for Android at Google, participated at the event via video conference, and introduced the latest achievements and new features of Android and Google Play. The engineering director said, "More than 2 billion apps are downloaded a month on Google Play in 190 countries worldwide. So far, over 500 billion apps have been downloaded." He added, "In particular, Korea is among the top five markets in terms of Google Play revenue, along with the US and Japan."

The director strongly advised local mobile gaming companies to utilize Google Play as the springboard to push into the global market. He pointed out, "The number of Android device subscriptions worldwide has already exceeded 1 billion, and the daily number is more than 1.5 million. Three out of four Android device owners play games... There are a lot of game

developers in Korea that have competitive advantages on an international scale. A series of success cases utilizing Google Play have been reported."

In fact, the weight of game apps is much higher than other content in the Korean Google Play Store. As of March 2014, 17 out of the top 20 free apps were games. In addition, three out of four Android phone users enjoy games through Google Play.

With Google increasing its influence, some in the industry suggest that to create a win-win situation between the company and local game developers, the search engine giant should lower its 30 percent fee, which is higher than those of mobile game platform providers. When local mobile gaming companies launch their games on Google Play, Google charges 30 percent of the total profits as a "distribution fee." Kakao collects 21 percent as a toll charge, while Band demands only 14 percent.

In response, Chris Yerga commented, "Sharing 30 percent of the total profits between game developers and Google is reasonable." Previously, the tech giant caught up in controversy, after notifying local mobile carriers that it will change the ratio of profit sharing from 1:9 Google:mobile carriers to 5:5. Regarding this issue, the director avoided an answer by saying, "I cannot comment at the moment." 

Reducing Presences

Traditional Global IT Companies Moving on to Next IT Country ?



Multinational companies are expanding their support into other emerging Asian markets while reducing support for organizations in Korea, due to Korea's slowing IT growth.

The "Exit Korea" trend is expected to deepen for a while, putting a dent in Korea's status as an IT test bed.

According to a related industry source on April 7, last year Hewlett Packard Co. got rid of the promotion department in Korea, handing its responsibilities over to its Asia Pacific Division.

HP Korea's promotion department had been subdivided into three, but was reintegrated due to lackluster business, and was completely dissolved last year. HP is known to have restructured their promotion departments in 13 countries where growth was stagnant.

IBM also handed over IBM Korea's sales and marketing portion to IBM Asia Pacific (AP) in Singapore at the beginning of this year.

So far, IBM Korea had been treated as one of the major growth markets, but now IBM AP is managing it together with other countries.

In addition, many smaller multinational IT companies in Korea have been minimizing their support departments or restructuring them to be handled by their AP or Japanese offices.

One associate who has been working at a multinational

IT company over 10 years said, "The IT companies are moving their resources and personnel to other emerging markets such as Vietnam from Korea where growth has stalled. Some Korean branches were downgraded into simple offices where only essentials are being taken care of."

Some companies are downsizing through mergers and acquisitions (M&As) among IT companies.

Company acquisitions such as Oracle taking over Sun Microsystems and IBM selling its server department to Lenovo affects the overall IT human resource market in Korea.

M&As between companies or company departments inevitably result in downsizing in personnel and support departments due to the reduction in organization and staff.

Contrarily, some domestic organizations shrink because of globalization of domestic companies.

Intel Korea handed over relevant operations to the headquarters upon expansion of their business in Samsung Electronics. Intel Korea provides CPUs to local PC companies.

One associate in the multinational IT industry said, "Just a few years ago, when I attended a company event, overseas IT people were eager to know what was happening in Korea, but the attention is shifting to Indonesia or Vietnam. Exit Korea will be exacerbated among multinational companies except mobile ones due to Korea's IT stagnancy and global recession."

Hyundai Motor in China

Hyundai Motor Group Reaches Out to Consumers in Western China

Hyundai Beijing decided to build its fourth plant in China in Chongqing and will start the construction once government approval is granted. The location reflects the automakers' intention to accelerate its penetration of China's inland market.

The annual production capacity of the new manufacturing facilities is estimated at 300,000 units. At present, its three plants located in Beijing have a combined capacity of 1.05 million vehicles. The company is expected to be able to increase the capacity to 1.51 million units by 2016 with the commercial vehicle plant in Sichuan, which will be put into operation before the end of the first half of this year with a production volume of 160,000 vehicles, and the fourth plant in Chongqing. Adding Dongfang Yueda Kia's three plants in Yancheng, which produce 740,000 cars a year, the Hyundai Motor Group manufactures 2.3 million units of vehicles each year in China.

The annual demand for cars is estimated to reach 20.06 million in China in 2016. Volkswagen and GM are planning to increase their capacity to 4.23 million and 3.8 million by then, respectively. Facility expansion is not an option for Hyundai to maintain a market share over 10 percent while competing with them.

The GDP growth rate of the western inland region was 12.3 percent last year, which is much higher than the 7.7 percent of China as a whole. In addition, the region is in the middle of a development boom, and car demand is skyrocketing.

The location has some political implications, too. These days, the Chinese government is committed to the development of Chongqing in an effort to narrow the income divide between the urban and rural areas and shift the focus of the national economy from export to

domestic consumption. This means that Hyundai's investment in the western inland region complies with the government policy. If Hyundai wins over the public there, it can achieve justification and practical benefits at the same time. The company is expected to break the 10 million mark this year in cumulative sales volume, after 12 years of business in China, by selling 1.71 million cars in 2014 alone with a sales growth rate of 8.4 percent. Then, Hyundai will lay claim to the title of selling 10 million



Hyundai Motor Group Chairman Chung Mong-koo inspects the facilities of the Beijing Hyundai plant in 2011.

cars each in Korea, the United States, and China. The fourth plant can be a sales booster.

It is said that a lot of major inland cities of China competed to attract the plant because of the company's unique and traditional overseas market development strategy in which it comes along with Korean auto parts manufacturers. This means that Hyundai's plant appeals greatly to the local government in China in terms of investment inducement, job creation, and tax revenue increases. **BA**

R&D in China

Hyundai Motor Builds Large-scale R&D Center in China

Hyundai Motor Company is building a large-scale R&D center, comparable to the Namyang Research Institute, in China at a total investment of 200 billion won. The completion of the construction, which is already underway in part, is scheduled for late this year.

The new research center is slated to house R&D facilities covering design, vehicle environment and performance control, test driving, and may more, with the only exception of internal combustion engine R&D. The automaker has recently set up Hyundai Motor China R&D Ltd. in order to build the center in Yantai, Shandong Province.

The Hyundai Motor Group is already running its overseas R&D centers in the United States, Europe, India, and Japan. However, the Yantai facility is its first integrated R&D complex located outside Korea. It seems that the exclusion of the engine and transmission

R&D divisions is to forestall any tech leak.

The carmaker is likely to break the 10 million unit mark in cumulative sales volume in China late this year. The construction of the local R&D center is expected to contribute greatly to the cycle of R&D, production, and sales. China called consistently for the construction and Hyundai decided to build the facilities in step with its fourth plant in the country.

According to Chinese government regulations from 2004, any automaker that is to set up a manufacturing plant in China has to build an R&D center at a minimum investment of US\$62 million. "The purpose of the new facility is better localization," said the Hyundai Motor Group, continuing, "Still, we have yet to fix on the size and the other details of the facilities, because talks are still going on with China." **BA**



Preemptive Export

Offshore Car Production Hits Record High in Q1

Domestic motor companies' offshore production is the highest in history in the first quarter of this year.

According to the industry on April 8, Hyundai Motors and Kia Motors produced 1,093,881 cars in their overseas production facilities from January to March, setting a historic high, 6.1 percent up from last year's 1,031,316 cars.

In their overseas facilities, Hyundai Motors produced 754,222 cars, while Kia Motors made 339,659 cars, posting 4.0 percent and 10.9 percent increase, respectively.

The rise is attributable to a boost in local production capabilities in response to the increased demand for cars in global markets, including China.

Hyundai Motors reinforced their production capabilities by 150,000 cars by expanding their three Chinese factories at the beginning of the year, while Kia has been newly operating their third Chinese factory since February.

Hyundai Turkey, which provides cars to the European market, also beefed up their production by 100,000 cars compared to September 2013.

Hyundai-Kia Motors, recording

4,110,000 cars in overseas production last year, is also expected to boost their overseas factory operations. The Korea Automobile Manufacturers Association predicts that the car giant's overseas production will top 4,400,000 cars this year.

According to the association, domestic car production including exports in the first quarter posted a 3.7 percent increase year-on-year at 1,154,853 cars. A full 382,021 cars were for domestic use, while 788,957 cars were for export, recording a 6.5 percent and 1.1 percent rise, respectively.

Hyundai-Kia Motor's domestic production also edged up 9.1 percent year-on-year to 924,549 cars. However, the figure reflects mitigating factors such as the company's labor union refusing to work overtime during the first quarter of last year.

The industry foresees that domestic car production will see an increase of 1.7 percent to reach 4,600,000 cars this year, which is 7.1 percent lower than overseas production expectations.


According to some, this reflects the lukewarm attitudes of domestic automobile companies who are not too anxious

to expand domestic production facilities due to labor-related issues such as the ordinary wage controversy.

In the meantime, last month's car export recorded the second highest in history for monthly sales.

Korea Automobile Manufacturers Association accumulated the automobile industry's statistics in March and reported that last month's export was posted at 286,754 cars, 9.9 percent up year-on-year.

The export amount was posted at US\$4.680 billion, the second highest figure after last December's US\$4.730 billion. It has been analyzed that the high performance stems from export cars' price increases and increased sales of more, larger luxury cars and RVs.

The average export price of a domestic finished car rose from last year's US\$15,472 to US\$16,307 this year. March domestic car demand increased 5.4 percent to 138,230 cars. The boost reflects the competitive introduction of new cars among domestic car companies as well as the sharp 30.4 percent rise in import car sales totaling 15,733 cars. 



POSCO developed and commercialized FINEX technology in 2007 in cooperation with Siemens.

Tough Times

Steel Industry Hit by Low-priced Chinese Imports

The steel industry, dubbed the “staple of industrialization,” is suffering from a triple handicap. There seems to be no light at the end of the tunnel, since front-line industries such as construction and shipping are still hard hit by the recession and a supply glut.

To make matters worse, recently their clients have begun pressuring for lower prices. Their raw material, iron ore, went down in price, giving a brief relief. But before tasting its benefits, the automobile and shipping companies began to exert pressure. In fact, the prices for some types of steel are dropping one by one.

The problem is that the domestic steel industry’s crisis will not end any time soon, because it will take time for the industry’s situation to turn around. Experts are advising that in order to ride out the crisis, the industry needs product differentiation together with product cost competitiveness.

According to the steel industry on March 26, the biggest culprit behind the crisis is oversupply. Domestic supply is not fully consumed domestically, but on top of that there has been an overflow of low-priced Chinese imports, which seems like a real kick in the teeth to profitability.

According to the World Steel Association, worldwide crude steel oversupply has been hovering at over 500 million tons per year since 2012. 2010’s oversupply of 480 million tons dropped to 469 million tons in 2011, but ballooned to 521 million tons in 2012.

This kind of supply glut stems from Chinese steel companies expanding their crude steel manufacturing all at once. According to China Iron and Steel Association, in January and February this year, their average daily crude steel production was 2,217,000 tons, 210,000 tons up from last December and the highest production in history. China recently undertook restructuring on steel companies, but is still in need of fundamental solutions for oversupply.

The industry associate says, “The world steel oversupply problem sparked by China is not likely to be easily solved. Therefore, steel companies’ woes will not go away for a while.”


The problem is that there is no promising new demand, since front-line industries like construction and shipping are not getting out of the recession as fast as expectations. Therefore, steel companies are complaining that they feel like they are drowning in what could be a bottomless pit.

In the meantime, the domestic steel market is expected to see a rise of 3 percent in steel supply year-on-year, due to the full-scale operation of new facilities at conglomerates such as POSCO and Hyundai Steel. In contrast, the demand increase will stop at 1-2 percent.

The recession in shipping and construction is judged to last, and domestic automobiles are also making only an insignificant recovery.

Experts are voicing their concerns that the crisis will last for a while, citing a steel supply glut due to manufacturing facility expansion and a grim outlook on the recovery of the front line industries.

Therefore, the industry is looking at upgrading manufacturing technology and differentiating products. A good case on hand is Hyundai Steel Company exploring a new market by developing strategic products such as “New Steel H-Beam” to overcome the depressed domestic market.

POSCO is also cutting down on costs and increasing high-value product sales through innovative measures such as developing FINEX technology, which is the world’s one and only advanced technology in manufacturing molten metal. 

Crisis of Shipping Industry

Shipbuilding Orders from Korean Shipping Firms Drying Up



Hanjin Shipping, the largest shipping firm in Korea, recorded none since last year.

Korean shipping companies are failing to place orders for large vessels. Under the circumstances, the domestic shipping industry is expected to get more and more enervated, because


major shipbuilding contracts are an effective means for tiding over a slump in the sector.

According to market research data of Clarkson, a total of 291 post-panamax and larger container carriers were outsourced worldwide between April 1, 2011 and March 31, 2014. Only five of the contracts were awarded by Korean companies.

Global leader Maersk ignited the competition back in 2011 when it placed 10 orders for super-large vessels with an average capacity of 18,270 TEUs. The United Arab Shipping Company, which

consists of six Middle East countries including Kuwait, awarded six 18,000 TEU contracts and 11 14,000 TEU contracts last year and earlier this year. Seaspan followed them with fifteen 14,000 TEU orders and twenty 10,000 TEU ones. The Canadian company is planning to procure 20 more mega container carriers by early next year, too.

Those in Asia are moving at a rapid pace as well. For example, the China Shipping Group has recently placed orders for nine 10,000 TEU and four 19,000 TEU vessels, and Singapore's Neptune Orient Lines awarded 10 contracts for 14,000 TEU ships.

Meanwhile, only Hyundai Merchant Marine placed five 13,100 TEU orders during the same period as a Korean shipping company, whereas Hanjin Shipping, the largest shipping firm in Korea, recorded none since last year. 

P3 Alliance

Shipping Goliaths Forming Alliance, Rocking Korean Shipbuilding



A huge debate has been sparked over how the local shipbuilding industry will be changed in light of the imminent embarkation of the P3 Network, an alliance of big shipping giants, Maersk Line, MSC, and CMA-CGM.


According to the industry on April 7, the P3 network will advance into the domestic market within the second quarter this year. Amid concerns over the possible monopolization of the shipping

industry, local shipbuilding companies are mulling over P3's future impact.

Kim Sung-man, a lawyer at Kwangjang law firm, expressed his concerns, "P3 has been presenting ideas like the joint purchase of vessels, but this will lead to the accumulation of three shipping giants' purchasing power, resulting in hefty bargaining power for them. The current balance between supply and demand will be broken, causing a market shift, and Korea, as a shipbuilding

leader, can be hard hit." This is because ship owner's superior bargaining power could lead to lower ship prices.

However, there is optimism that the P3 alliance can serve as a blessing to the local shipbuilding industry.

One shipbuilding associate said, "There is a trend that low-ranking shipping companies and other shipping alliances against P3 are placing orders for super-sized container ships. Maersk placed an order for a 18,000 TEU ship followed by G6's move to order another 18,000 TEU ship, while the CKYHE alliance is focusing on 14,000 TEU vessels. A new demand is being created on the back of the new market shift." He added, "In the end, P3 was created to pursue efficiency in vessel operation, and later, to keep up with that efficiency, orders will be placed. A close attention is being paid to its effect, considering that the amount of orders is expected to be conservative." 

Earning Shocks

Oil Refining and Chemical Firms Predicted to Come Up with Less-than-expected Earnings

Major Korean oil and chemical companies are expected to record an earnings shock in the first quarter of this year. Securities companies forecast that oil refiners' operating profits have dropped by approximately 60 percent from a year earlier. Things are not much different for the chemical companies, which have suffered from an economic recession that started in China.

The business profits of all of the top three oil refiners in Korea – SK Innovation, GS Caltex, and S-Oil – are predicted to have been more than halved in Q1 with their refining margin standing at just 1 percent or so and their chemical business units remaining in a slump. Hyundai Oil Bank, which has focused on petroleum refinement, is expected to have posted less-than-expected earnings as well due to adverse business conditions.

SK Innovation earned 697.5 billion won (US\$669.3 million) in operating profits in Q1 2013, but the amount for Q1 2014 is likely to be limited to about 250 billion won (US\$240 million). GS Caltex's and S-Oil's profits are forecast to have dropped by around 60 percent, too.

"Oil refiners enjoyed sizable Q1 profits during the past couple of years, but things are likely to be different this year," said SK Innovation, adding, "They used to make up for the oil refining losses by means of their profits from the chemical business, but the chemical divisions themselves are also struggling this year due to the decreasing demand in China."

The chemical business above refers to paraxylene, which is used in manufacturing clothes and PET bottles. Its

price has plunged recently as China, the largest export destination, cut its demand for the material. Specifically, the per-ton price was as high as US\$1,400 last year, but has dropped to approximately US\$1,100 until last month.

"The downturn in refining margin in March and the decreasing paraxylene demand are likely to result in more sluggish performance," analyst Choi Ji-hwan at NH Investment & Securities explained, continuing, "Still, the paraxylene demand is expected to increase this year for at least some improvement in profitability."

The outlook is gloomy for the chemical industry as well, with the slump in the Chinese economy leading to less demand for chemical products, inventory pileup and decreasing prices. As an example, the price of butadiene, which is a raw material for synthetic rubber, has declined by 10.1 percent during the past three months to affect the profitability of chemical companies.

Those with greater dependence on the petrochemical business such as LG Chem, Kumho Petrochemical, and Lotte Chemical are forecast to have been affected more. LG Chem's operating profits are estimated at around 300 billion won (US\$288 million), down by at least 100 billion won (US\$95.9 million) from the previous year. The quarterly profits of Kumho Petrochemical, which relies heavily on the Chinese market, are estimated at 20 billion won (US\$19 million) or so. The company posted 78 billion won (US\$74 million) in business profits in Q1 2013.

According to KDB Daewoo Securities, Lotte Chemical is predicted to have




Ulsan, a city in the southeastern area of South Korea, is home to a lot of refinery infrastructure.

earned 97 billion won (US\$93 million) last quarter, whereas the amount reached 117 billion won (US\$112 million) in the same period last year. Kumho Petrochemical's profits are estimated to have dropped 80 percent to 16 billion won (US\$15 million). "The remaining inventory in the synthetic rubber market of China seems to have affected our business until Q1," the company said.

Nevertheless, the outlook is pretty bright for the photovoltaic sector, as business restructuring is in progress in China and the price of polysilicon is on the rise. Hanwha Chemical and OCI are likely to benefit from such trends.

Hanwha Chemical posted operating profits of 9 billion won (US\$8.64 million) in Q1 and 34 billion won (US\$32.6 million) in Q4 2013. However, the profits are likely to have increased to 40 billion won (US\$38.4 million) in Q1 this year. "Although the chemical sector is still struggling due to the China factor, the demand for photovoltaic products is on a consistent rise," the company explained.

"Hanwha Chemical succeeded in turning to a surplus in Q4 last year by excluding the one-off costs," Shinhan Financial Investment analyst Lee Eung-joo mentioned, adding, "Now, the key is how successful its photovoltaic business has been in the first quarter of this year, and the consensus is that it has fared pretty well during the period." 

Samhwa Paints

Opening New Chapter with New Leader



Huh Sung, COO of Samhwa Paints Industrial Co.

Huh Sung inaugurated as new Chief Operating Officer of Samhwa Paints Industrial in March.

As the new COO, Huh swears to expand into the global market as a strong business engine, going beyond being Korea's number one paint company.

At the inauguration speech last March, the new COO stressed the importance of becoming a practical leader that can utilize the competence and experience that the company has built from overseas experience under the company's goal of "Globalization and R&D reinforcement."

As a concrete vision for Samhwa, he presented the idea of "Making Samhwa paint a part of the Korean wave." The intention is to become a global company with products that have globally-recog-

nized quality.

The slogan "Drop by Drop" was chosen to represent the company's efforts in achieving the goal. The slogan is interpreted to mean that the company is going to "forge ahead with unceasing innovation by satisfying the consumers after containing every drop of their thoughts and needs."

The newly-sworn-in COO also quoted a Chinese idiom that can be spelled out as "forging ahead against the waves with big winds at the back," saying that the idiom really hits home since it reminds him of a company that pushes forward into a successful future.

He also called for the unrelenting efforts of all of the company's staff in making the company the world's best paint company.

Huh Sung previously worked for AkzoNobel as a global purchasing executive until February this year, and took the COO position with Samhwa. He has a PhD in economics from Carleton University in Ottawa,

Canada.


The paint company secured its number one position in the construction paint market, and its sales in industrial paint are rapidly growing on the back of the company's superior technology. The company has a bright future in the 3 trillion won (US\$ 2.9 billion) local market thanks to stabilized raw material prices, business area expansion, and the changing needs of end users.

The company successfully expanded its business when it developed electronics-suitable plastic paint. The paint looks like textured metal when it is painted on plastics, so it has started to be used in IT and electronics. The company posted last year's operating profits at 43.5 billion won (US\$42 million), 92.5 percent year-on-year, on the back of its fast-growing branch in Vietnam. The company is making two new factories as well, one in Gongju City to be completed in the second quarter, and another in Ansan City, scheduled to produce both liquid and powdered paints.

"Dream Painting" - the Company's Social Work in Cambodia

Between March 29 and April 3 in Cambodia, the paint giant offered "Dream Painting" social work as part of its overseas community service in cooperation with the Salvation Army Hanarum Family and comedian Ahn Sang-tae.

During the period in Phnom Penh, the company fixed up and painted houses in the slums, and offered renovation services as well as classes on "colors" when visiting a 35-year-old countryside kindergarten. Also, Samhwa Paint's Facebook friends delivered aid funds and 1,000 jump ropes to the Salvation Army Hanarum.

A company associate said, "We will continue our social work to give hope to people in need by offering paint and other social services." 



Samhwa Paints went to Cambodia to offer social service such as fixing up and painting houses.



Medical Innovations

Hot Pursuit of New Combo Drugs



Rovelito, developed by Hanmi Drug, is a new combo drug that fights high blood pressure and hyperlipidemia.

Research towards new “combo drugs” is all the rage now. A combo drug refers to two or more drugs that can be taken at once.

Fierce competition among pharmaceutical companies is looming, according to industry sources on April 8, since they are in hot pursuit of developing new combo drugs mostly against chronic diseases such as high blood pressure, hyperlipidemia, and diabetes.

A new combo drug has merits because, if the research succeeds, it can be put on the market before the patent on the original drug expires, and it easily differentiates itself from other copy drugs.

In particular, the government decided to give a favorable rate in determining the prices of the new improved combo drugs from November last year, attracting attention from pharmaceutical companies.

The front runner in Korea is Hanmi Drug. The company was put in the spotlight in the wake of rolling out Rovelito and Naxozol, developed together with the global pharmaceutical company Sanofi at the end of last year. The first is a combo drug against high blood pressure and hyperlipidemia, and the latter combines anti-inflammatory and anti-ulcer properties.

The important part of developing a new combo drug goes beyond simply combining two elements. The integral skill involves making sure that those combined elements do not counteract each other.

In 2009, the market leader also launched Amosartan, a drug that combines two elements that treat high blood pressure, earning over 60 billion won (US\$57.6 million) per annum


domestically while signing an export contract with 51 countries through America’s Merck Sharp & Dohme (MSD). The drug giant is also spearheading a joint project with GlaxoSmithKline (GSK) to develop new combo drugs.

Daewoong Pharm. Co., Ltd. recently rolled out Olostar, a new combo drug that treats high blood pressure and hyperlipidemia, eyeing at reaching domestic sales of 50 billion won (US\$48 million) and global sales of 250 billion won (US\$240 million) in 5 years.

The “two tier tablet” technique has been applied to the product to minimize drug interactions that can happen when two or more drugs are taken at once. The company has filed a patent application for the technique.

Ildong pharmacy is developing a variety of combo drugs that can fight diabetes, hyperlipidemia, gastrointestinal disorders and inflammation, and got the green light for clinical testing on Korea’s first combo drug that combines three high blood pressure drugs.

Yuhan Corporation is conducting clinical testing on high blood pressure and hyperlipidemia combo drug YH16410, and hyperlipidemia and diabetes combo drug YH14755. At the same time, LG Life Sciences Ltd. is in the process of developing a new combo drug that combines in-house developed diabetes drug Zemiglo and hyperlipidemia-treating Cresto.

One pharmaceutical industry associate said, “A combo drug kills two birds with one stone, since it can reduce the cost of the drug as well as treat the diseases. For their sustainable growth, pharmaceutical companies need to strategically develop new combo drugs against chronic adult diseases rather than developing copy drugs.” 

Korean Casinos

Casino Market Opens to Foreign Businesses



The Ministry of Culture, Sports and Tourism announced on March 18 that it gave the green light to opening a foreigner-only casino after assessing the bid filed by Lippo & Ceasars Consortium (LOCZ Korea), a venture between Chinese and American companies.

The assessment focused on LOCZ Korea's credit status, investment size, capital characteristics, and other factors.

The consortium made its successful Korean entry after reinforcing several conditions, such as improving its credit rating and beefing up its investment amount, after its previous bid was rejected last June.

The permission this time is intended to entice foreign tourism, revitalizing the economy and creating new jobs in the service industry. The move is also expected to spark intense competition among foreign casino businesses that want to enter the Korean market.

In the meantime, some concerns have been voiced over how it may also induce speculative foreign investment capital indiscriminately. With this concern in mind, the Ministry established a few safety measures such as ensuring a three year permission period and requiring the Ministry's pre-approval in case of business permit hand-over.

LOCZ Korea, a consortium between Chinese company Lippo and American company Ceasars Entertainment, turned in a report for the pre-assessment that it will invest 746.7 billion won (US\$698.1 million) in Midan City, Yeongjongdo, by 2018, and will build a resort by putting in 23 trillion won (US\$21.5 billion) in construction by the year 2023.

LOCZ still needs to acquire the permanent casino business permission from the government, after being evaluated about how it adheres to the original investment plan in January 2018.

The government emphasized the nature of the "preliminary license" to LOCZ Korea, and presented conditions including annual accounting inspections, execution performance reports, and single-account investment fund management. Additionally, it was also urged that the corporation come up with measures to create domestic jobs.

If these conditions are not to be fulfilled, actions can be taken such as canceling the preliminary license and denying the permanent license.

The consortium's plan calls for building a 7,700m² casino, the largest among foreigner-only casinos in Korea, by April 2018. This is expected to create 8,000 jobs during the construction period of 2014 to 2018 and balloon tourism revenues to 890 billion won (US\$832 million) by 2020.

The permission also draws attention to the possibility of turning Yeongjongdo into Korea's Las Vegas.

In addition to LOCZ Korea, several other foreign companies are knocking on the door of Yeongjongdo, such as Universal Entertainment and Las Vegas Sands Corp. Also, the biggest local casino company Paradise Group has its casino resort business underway in Yeongjongdo, with an investment of up to 2 trillion won (US\$1.87 billion) by 2017, and Grand Korea Leisure is following suit.

However, foreign corporations ultimately aim at targeting Koreans as customers, possibly causing controversy down the road.

Last year, foreigner-only casinos currently operating in 16 locations in Korea recorded 2,707,000 admissions and 1.375 trillion won (US\$1.285 billion) in sales, up 13.6 percent and 9.7 percent, respectively, from the year before. ■

Lithium Batteries

UNIST Develops Novel Tech for Doubling Lithium Rechargeable Battery Capacity

The Ulsan National Institute of Science and Technology (UNIST) has developed a new graphene coating technique with which the capacity of a lithium secondary battery can be more than doubled.


Professor Song Hyeon-gon at the Energy and Chemical Engineering Department recently announced that his research team created very small and flexible graphene layers. They employed the ball milling method for making graphene by breaking graphite physically while uniformly coating a manganese

oxide-based electrode active material with the layers to double the battery capacity.

The research result was published in the international edition of *Angewandte Chemie* on April 9. “The graphene coating technique we developed this time is a highly-innovative source technology that can be applied to not only lithium secondary batteries but various electrode materials like fuel cells and photovoltaic cells,” the professor explained, adding, “We hope that the technology will play an important part in dealing with the



Professor Song Hyeon-gon at the Energy and Chemical Engineering Department of the Ulsan National Institute of Science and Technology works to double lithium battery capacity.

environment and the energy problems that the entire world is facing.” 

Variable Gauge Bogie

Non-stop from Seoul to Russia by KTX

The Korea Railroad Research Institute announced on March 30 that it developed a variable gauge bogie compatible with both the wide gauges used in Russia and the standard gauges in Korea.

A bogie is a type of box that surrounds train wheels. It is made up of a bogie frame, wheels, axles, bearing boxes, springs and the like, and faces the upper parts of rails. South and North Korea and China use standard gauges with a width of 1,435 mm, whereas the width of those used in Russia is 1,520 mm. Such wide gauges ensure higher transport capacity but cost more.

If a train departing from South Korea is to reach Europe via North Korea and Russia, the bogie has to be replaced to suit the gauge. This is why the late North Korean leader Kim Jong-il used to spend five to seven hours, during his visits to Russia, at the boundary between the north and Russia.

As mentioned above, the problem associated with bogie change has been a roadblock to railway transport from




The variable gauge bogie developed by the Korea Railroad Research Institute.

Korea to Russia. However, the institute's new development is expected to be a perfect solution. The new bogie can not only be adjusted to both of the gauges, but also run at a speed of up to 280 km per hour. Trains employing the bogie do not have to be stopped even in the boundary area, but are capable of driving at 10 to 30 km per hour while switching gauges.

The institute's bogie has excellent high-speed driving performance, long-range performance, and ease of repair and maintenance, because it is 40 percent lighter in weight and uses about 50 percent less parts than those used

between Poland and Lithuania and Spain and France. It has passed component fatigue and shock absorption tests assuming cold weather in Siberia of up to 80 degrees Celsius below zero.

“A variable gauge bogie costs about double bogies in general, but it is 1.2 times to 2.8 times more economical when the time and costs consumed in a boundary area are taken into account,” said Dr. Na Hee-seung at the institute, adding, “It is effective for 2,000 km in traveling distance in most cases, which means its economic efficiency can be maximized in Korea, China, Mongolia, the Maritime Province in Russia, etc.” 

Revolution in Charging Technology

Korean Research Team Develops New Tech to Power Wearable Devices Using Body Temp

A Korean research team has developed a new technology to power wearable devices with body temperature, with wearable devices emerging as a next-gen platform following smartphones.

The Korea Advanced Institute of Science and Technology (KAIST) announced on April 7 that a research team led by Cho Byung-jin, professor of the Division of Electrical Engineering at KAIST, succeeded in developing a new method to make a new thermoelectric module that can convert body heat into electricity using glass fabric.

The research team grounded n-type (Bi₂Fe₃) and p-type (Sb₂Te₃) materials into power, and mixed the powdered materials and a special solvent to make a thick paste. Finally, the paste was screen-printed onto a glass fabric as dots 1.5 mm in diameter and approxi-

mately 500 μ m thick. The result was a thermoelectric module for a wearable device, which is 14 times as efficient as traditional ceramic substrates in producing electricity, and lighter too.


A 10×10 cm band-shaped device attachable to a human arm may produce around 40 milliwatts of electricity at 20 degrees Celsius, enough to power a semiconductor chip. In particular, a 50×100 cm device attached to the torso can generate 2W of electricity, which is enough to fully charge a cell phone.

Professor Cho explained, “The biggest obstacle to the commercialization of wearable devices is related to problems with power supplies. So, a battery of any wearable device is required to be frequently replaced at the moment. And the battery itself is heavy. However, it is now possible to utilize wearable devices semi-permanently using this thermo-



The thermoelectric module, when attached to someone's arm, can produce electricity from body heat.

electric module, because it generates electricity with body temperature.” He added, “Unlike the conventional organic-based thermoelectric module, the newly-developed one can be made on a large scale. Furthermore, it can also be utilized in converting waste heat coming out of cars, factories, airplanes, and ships into electricity.”

This study was funded by the Ministry of Science, ICT and Future Planning, and the research findings were first published online on March 14 by Energy & Environmental Science, a monthly scientific journal. 

Green Fuel

Breakthrough in Microalgae Bio-Refinery Process

A new breakthrough technology was developed by a domestic research team, which allows the mass cultivation of microalgae that can be used for bio-diesel production.

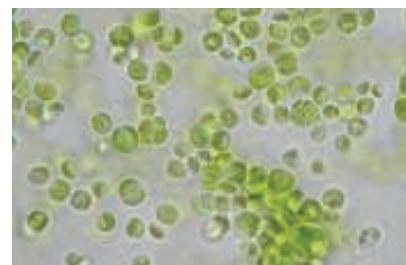
Korea Basic Science Institute (KBSI)'s Property Science Research Team led by Lee Ju-han and Lee Hyun-wook and the Korea Institute of Energy Research (KIER)'s team led by Yo Yookwan revealed last week that they had developed a technology that enables the mass production of water-soluble cationoid organic nano clay-titanium dioxide complexes, to be used to harvest microalgae chlorella and to efficiently destroy cells and extract the oil components.

This is the world's first development

of integrated microalgae bio-refinery processing technology, by which chlorella can be quickly harvested on a large scale, and its oil component will be easily extracted using an organic nano clay-titanium dioxide complex.


KBSI's Lee Ju-han team developed a technology to allow the mass production of organic nano clay-titanium dioxide complexes at room temperature. Organic nano clay-titanium dioxide complexes is a core material for integrated microalgae refinery processing technology.

KIER's team discovered a processing technology that could speed up the commercialization of bio-refinery processing by applying the organic nano clay-titanium dioxide complexes into the



Microalgae such as those pictured above are a possible source of biofuel.

base downstream process.

Lee said, “The technology applies sunlight usable titanium dioxide into green algae harvests, and by developing technology that can easily destroy green algae's cellular walls, further applications are feasible such as water processing, including green algae manipulation.” 

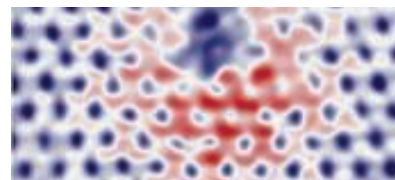
Scanning Seebeck Microscope

Korean Research Team Develops Tech to Observe Electron Cloud Shapes

The Korea Advanced Institute of Science and Technology (KAIST) announced on April 2 that a Korean research team – led by Kim Yong-hyun, assistant professor of the graduate school of Nanoscience and Technology at KAIST, and Dr. Yeo Hogi from the Korea Research Institute of Standards and Science – has successfully developed a technology to make a scanning seebeck microscope (SSM). It was made possible to clearly observe atoms and the shape of an electron cloud by creating electrical pressure using a difference in temperature.


The SSM, which promises high resolution at room temperature, allows researchers to observe defects in graphene and semiconductors at the atomic level. Therefore, the new tech is expected to greatly contribute to improving the quality of graphene-based products and semiconductors, and to lowering the price of those products.

Professor Kim said, “We succeeded in providing the framework to understand previously-unknown thermophysical phenomena at the nano scale,” adding, “I think that the tech to produce an SSM will become an important method



Electron waves observed in graphene using a Scanning Seebeck Microscope.

for studying the surface of agglutinable substances.”

The research findings were published online in the April 1 issue of *Physical Review Letters*, a weekly scientific journal by the American Physical Society. 

Vinylidene Fluoride

Korean Team Develops New Tech to Produce Vinylidene Fluoride

The Korea Research Institute of Chemical Technology announced on April 2 that a Korean research team led by Dr. Park In-joon and Dr. Lee Soo-bok succeeded in developing a new technique to manufacture a vinylidene fluoride (VDF) monomer, which is used to produce Polyvinylidene Fluoride (PVDF), a core material used in the high-tech industry.

Since PVDF has excellent weather resistance, fouling resistance, ferroelectricity, and a low refractive index, the material is widely utilized in the country's key industries, including solar cells, secondary batteries, water purification systems, and antipollution optical films. The VDF monomer, on the other hand, refers to basic material used to create PVDF.

The research team is widely acknowledged to have laid the groundwork for securing a tech to manufacture a fluorine-contained resin, in that

it developed a basic technology for a continuous proving process that can be used in the manufacturing process of PVDF. In addition, about 100 billion won (US\$94.9 million) per year is expected to be saved, since the country will no longer need to import VDF.

According to the team, they were able to achieve the cost competitiveness at the international level through both the pyrolysis process in which impurities are rarely created and by increasing the conversion efficiency.


The research team is aiming at commercial production by 2015. It is also planning to make a strenuous effort to develop a method to produce PVDF, to make its prototype, and to transfer related technology to companies.

Dr. Park explained, “After test runs, it was found that the conversion rate of



Polyvinylidene Fluoride is a white plastic substance, and is most commonly used as insulation in wires such as the ones in the inset.

the pyrolysis reaction was more than 99.5 percent,” adding, “Purity was 98.5 percent, and distillation purity was 99.7 percent, which are on a par with the world's best tech.”

He also stressed, “Our research is significant in that we developed our own technology. So far, importing the tech has been impossible, because a limited number of countries such as the US, Japan, and Germany retain the tech.” He concluded by saying, “We are going to make continuous efforts to locally produce other core chemical materials essential for the industry.” 

Phone Charging Innovation

Israeli Venture Firm Develops Innovative Smartphone Charging Technology

Many smartphone users are unhappy about battery life, which take at least one hour to gain a charge that lasts for less than a day. This dissatisfaction is likely to be addressed in the near future.

Foreign news channels such as the Wall Street Journal and CNN Money reported this week that StoreDot, a venture firm in Israel, unveiled a prototype of a technique for 30-second charging.

According to the company, the technology was developed by Alzheimer's research at Tel Aviv University. In demo footage posted by StoreDot, the battery


of a Galaxy S4 smartphone is charged in just 26 seconds at the Think Next Conference by Microsoft.

"The research institute created nanocrystals with a diameter of 2.1 nanometers by separating certain amino acids and combining them with peptides," said Doron Myersdorf, founding CEO of the company, continuing, "The nanocrystals can be utilized in the batteries of a variety of electronic appliances." The research team added that the nanocrystals can triple the speed of existing flash memory as well.

What is drawing attention now is



Video footage captured by StoreDot.

how to make it small enough to be put into a smartphone. The battery shown in the footage is as large as a cigarette box. The company is expecting that it will be able to release commercial products within a couple of years. 

New Bioassay Platforms

Korean Research Team Develops Tech to Drastically Reduce Drug Development Time

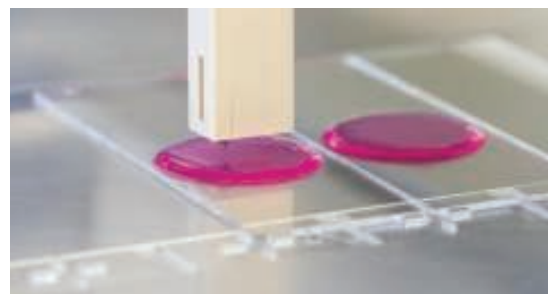
The Institute for Basic Science (IBS) announced on March 25 that a Korean research team led by Kwon Sung-hoon, assistant professor of the Department of Electrical and Computer Engineering at Seoul National University, successfully developed a technology to produce a high-speed, multiplexed bioassay platform. This platform will drastically reduce the time and cost needed for the development of new drugs.

Professor Kwon said, "Our research findings can contribute to advancing the local biotech industry, since a lesser amount of time and cost will be needed to search through a range of bio materials and candidate materials for new drugs." He added, "In particular, the fact that our study was done through the convergence of various academic disciplines is significant."

The research findings were published online in the March 17 issue of

Nature Communications, a bi-monthly scientific journal published by the Nature Publishing Group. The abstract reads: "One quantitative liquid handling method in conventional assay processes is pipetting, which delivers a precise volume of one sample at a time. As this process becomes labori-

ous and time-consuming as the number of samples increases, researchers in individual laboratories need a way to conduct large-scale assays in a reasonable amount of time and at an affordable cost. Here we report a novel handling technique of chemical substances termed 'partipetting', which allows the one-step pipetting of various chemical-laden hydrogels. We pipette and assemble various types of encoded chemical-laden microparticles in microwell arrays



Hydrogels are finding many uses in science, such as holding cells in suspension as they are printed into a particular shape by an inkjet printer head. (Photo by Fraunhofer IGB)

in parallel. The combination of this heterogeneous particle chip and a cell chip induces the release of the chemicals from the hydrogels and, eventually, the chemicals treat the targets. Based on bioassay applications using partipetting, we show its capability in large-scale bioassays, without the need for high-throughput bioassay resources, owing to a reduction in the assay costs and time.



2014 ITU

ITU to Last for 3 Weeks in 2014 in South Korea



The Ministry of Science, ICT and Future Planning, in anticipation of the successful hosting of the 2014 ITU Plenipotentiary Conference, shared its status on agenda preparation and special events, and revealed plans on major diplomatic activities regarding the ITU Telecommunication Standardization Sector (ITU-T) Directorship and the ITU seven council member status.

The ITU Plenipotentiary Conference, being held every four years, is the ITU member's top policy-making conference attended by ICT ministers of 193 member nations. This year's meeting will be held in Busan from October 20 until November 7 for three weeks. In the main meeting (plenary) and sub-committee meetings, members will decide on global ICT policies for the next 10 years, and will elect a secretary-general, high ranking officials, and council member nations.

Three Weeks of Events to be Held

In the first week, starting on October 20, 2014, the conference will kick off with the events "World IT Show 2014", "Mobile 360", "5G Global Summit", "Big Data World Congress", and "U-Clean Concert."

The "World IT Show 2014" is the biggest local ICT exhibition similar to world class exhibitions like America's Consumer Electronics Show (CES) and Spain's Mobile World Congress (MWC).

For four days from October 20, all ICT-related domestic and overseas technologies and items will be displayed, to be followed by export consultation sessions.

"Mobile 360" is a mobile communication global conference hosted by the Global System for Mobile Association (GSMA), which has 1,000 member companies around the

world. The event, in link with the World IT Show, features a leadership conference, forum, and network events under the themes of Near Field Communication (NFC), mobile commerce, and Long Term Evolution (LTE) October 20 and 21.

Also to be held is the "5G Global Summit," where diverse topics will be covered such as each nation's long term strategies on 5G mobile communication, R&D programs, and the research status of major companies. The "Big Data World Congress" intends to effectively and creatively utilize big data as a new growth driving force. "U-Clean Concert" will help to cultivate a wholesome digital culture by inviting youth and experts from the relevant fields.

The second week consists of the events "Global ICT Premier Forum," "Health-IT Fusion Exhibition," "CLOUD EXPO," "IPIN Conference," and "u-Paperless Conference."

The "Global ICT Premier Forum" is scheduled for October 27 and 28 for two days, where international ICT experts and CEOs will lecture on a variety of subjects under the theme of the "Creative Economy's Performance and Observations on its Tasks and Future." Diverse discussions will be exchanged from the perspectives of the Creative Economy's principals: citizens, companies, and governments.

"Health-IT Fusion Exhibition" is a specialized exhibition in the field of Health-IT, the most representative case of fusion between IT and another industry.

From October 27 to 29, new products and technologies will be showcased and promoted in the areas of digital hospitals, u-health, and biotechnology, boasting of Korea's superb ICT technology.

To be accompanied is the simulation wing where one can witness the fruits of many government-led R&D businesses, digital hospital systems, and smart home care, helping to assess the future of healthcare.

The "CLOUD EXPO" is a specialty exhibition aiming at invigorating and expanding cloud computing industry markets. The "IPIN Conference" is the world's one and only academic meeting to be joined by some 300 navigation experts, whereas the "u-Paperless Conference" is the Asia's biggest electronic document conference.

The conference will end its last week with the "Korean Science Creativity Festival," which offers a forum where people can experience all kinds of scientific culture.

The festival will showcase the latest trends, where ICT goes beyond its comfort zone to incorporate scientific technology. It will display the hottest scientific technologies offered by some 300 schools, and offer over 400 programs where specta-



The global ICT Forum in preparation for the 2014 ITU Plenipotentiary Conference was held at Jamsil Lotte Hotel on November 25 to 26 last year.



Choi Moon-ki, minister of Ministry of Science, ICT and Future Planning is speaking at a government office in Seoul, at the ITU preparatory meeting on October 11, 2013.

tors can participate from November 3-8.

People can also have fun and enjoy the festivities through different musical concerts and talk shows that are offered in many corners of the site.

S. Korea to Lead the Agenda

The Korea-led agenda also just might get the green light and get accepted as the Asia Pacific region's joint resolution.

Korea will lead the main agenda covering many issues including the fusion between ICT and other industries, Critical Information Infrastructure Protection (CIIP), and information protection grading.

Korea proposed the agenda as a resolution through the first (Seoul) and second (Australia) Asia Pacific region preparation meetings, and is trying to make the upcoming third preparation meeting (Malaysia) in June choose their agenda as the region's

joint resolution.


Korea proposing the agenda for the Plenipotentiary Conference is the first since the joining of the ITU, and if the agenda were to be chosen, it would contribute a lot in enhancing domestic companies and their technologies by putting Korea at a vintage point in terms of international standardization as well as leading and stimulating research on relevant areas.

Lee Sang-hak, deputy secretary general of the ITU preparatory committee, said, "The ITU Plenipotentiary Conference has been an important meeting even for the UN, since the former discusses mid to long-term global policies. This is a once-in-a-100-year opportunity for Korea, so we should thoroughly prepare for it to make it an impetus for our ICT field's phenomenal growth, as well as making it the best ITU conference in its 150 year history."

In the meantime, during the conference, elections will be held for 65 positions including ITU secretary general, deputy secretary general, directors in three segments, and radio regulation board members.

Among these, the most important elections are for secretary general, ITU Telecommunication Standardization Sector (ITU-T) director, and radio communications board director, and Korea is zeroing in on ITU-T directorship.

The general director position gets the final call on international information communication standardization and sets the direction of the ICT industry.

Vice Minister Yun Jong-rok at the Ministry of Science, ICT and Future Planning has been actively meeting ministers and vice ministers of some 10 countries at the World Telecommunication Development Conference (3/29-4/1), and his efforts will be relayed to the Minister Choi Moon-ki, who will invite many ambassadors to Geneva, Switzerland in May to ask for their support in electing Korea's candidates. 

Horse Racing

Gambling vs. Corporate Social Responsibility



Horses thunder down the track at Seoul Racecourse Park in Gwacheon, a suburb south of Seoul.

Is gambling always bad?

According to what the Korea Racing Authority (KRA) does with its gross turnover from the money people have gambled on horse racing, it doesn't always seem so. Betting on horse racing has always been a controversial topic in Korea, because there is the notion that public enterprise should not include businesses that harm people.

Many social organizations criticize the KRA for encouraging gambling, claiming that more Koreans lose bets from the KRA than anywhere else. The facts also back up this argument.

First of all, the money they make keeps increasing. From 2008 to 2012, the gross turnover increased from 7.4 to 7.8 trillion won (US\$7.1 to 7.4 billion). But surprisingly, the number of visitors to the race tracks halved, going down from 21.2 million in 2008 to 10.6 million in 2012. This works out to the average bet per person per game increasing from 350,000 won (US\$338) to 490,000 won (US\$473), which is a whopping 40 percent increase in five years. This can only mean one thing: the KRA is a gambler training center.

To change this bad image, the KRA is working hard on giving back what they've earned to society. The KRA is using 16 percent of its gross turnover from horse racing operations for corpo-

rate social responsibility activities.

Corporate social responsibility has been proven to be a very effective way of improving a company's image, thus companies in all sectors are spending money to serve society and people. The KRA is one public enterprise that has been doing lots of work.

The most recognizable actions they've taken for corporate social responsibility have been done by the KRA Angels. The KRA Angels are a group of volunteers that donate their talents to many different activities, from giving out briquettes and kimchi to operating free meal trucks for socially-neglected people in Korea. The KRA is also running sisterhood programs by affiliating a local welfare facility to a department in the KRA so that the employees in that department can volunteer at their affiliated facilities. There are currently 26 welfare facilities with which the departments of the KRA are sisters. The eight headquarters of the organization are also connected to agricultural or fishing villages. And, if that was not enough, the company also did overseas volunteer work in Myanmar last year.


The KRA is also running horse-related community welfare programs. In 2012, it opened two equine healing centers, one in Incheon and the other



KRA Angels pose with children in Myanmar during their stay in which they helped to build 70 homes and provided sanitary technology and education to the residents.

in Siheung. Together they have done almost 13 thousand sessions of horse riding therapy and about 17 thousand counseling sessions. Last year, they opened another one in Daegu. These centers have not only helped people to be healthier, but have also created 79 jobs.

The KRA is planning to hire between 70 and 100 additional people every year for this project. Speaking of jobs, a total of 188 jobs were created by all corporate social responsibility programs run by the KRA in 2012. They added 239 more in 2013, and are becoming more aggressive this year with a plan to hire an additional 600.

The organization is doing much more this year than previous years to serve corporate social responsibility. Last March, it launched a Corporate Social Responsibility Foundation under the slogan "Let's Run Innovative Management Declaration for the Second Start Up." They have divided their activities into four themes: creating jobs, raising kids, sharing culture, and doing volunteer work. Attention-drawing programs like "helping out North Korean refugee kids" and "home improvement for village seniors" will slowly but surely improve the KRA's external image, and make horse racing seem less offensive. 



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Digital Life

Disastrous Day without Windows OS; Need to Change OS Environment



In light of Microsoft (MS) ending its Windows XP support, a voice is being raised that an alternative Operating System (OS) is needed and a consensus is forming that we should no longer depend on one particular OS.

Then, would using another OS solve the problem?

On April 4, an average company worker spent his work day using Apple's Mac OS instead of Windows. At 8:30 am, he turned on his Macbook Air with Apple's Mac OS installed on it.

Since his job involves a lot of outings, he logged onto his company messenger the first thing in the morning.

However, his company messenger does not have a Mac OS version, making it impossible to install it on a Macbook Air. Luckily it had an iPhone application. But the relief was brief.

He had to report today's itinerary and other issues via messenger, but it was awfully inconvenient to send long messages using the tiny keyboard on his

iPhone. But he had no choice, so he hunched down to deliver the long messages.

At 10 am, he was one hour behind schedule due to using the phone instead of his desktop messenger and wasting time trying to install programs.

Another obstacle presented itself when he was trying to access the article release system, which only was designed to work on Windows, making it impossible to install on Mac OS. He had to email all the articles to another worker who had to upload them to the company system.


At 2 p.m., he started a web search to look for article data via the Safari Browser instead of MS Internet Explorer, but the domestic web environment was not friendly to the former.

For example, Minwon 24, much used by the general population, showed a lot of errors when accessed via the Safari web browser instead of Internet Explorer. Only a certain version of Safari can access that web site.

At 4 p.m., he tried to install programs he usually used under Windows OS. When trying to download free anti-virus programs such as AhnLab's V3 Lite and ESTsoft's AI Yac, again he was let down because they only supported Windows OS. After the 10 hour experiment, he realized that working with another OS other than Windows was not impossible, but entailed a lot of inconveniences and would negatively affect other people's jobs. The problem was not just the OS. His work environment was not friendly to other OS systems than Windows.

The problem is shared by domestic public organizations and most companies. For example, Korean civil servants in public organizations mainly use the On-Nara BPS system, which only works with Windows OS. If an alternative OS were to be installed, as the government insists, it would only wreak havoc on daily operation. The work environment has to be changed together with the change in the OS.

This is why experts point out the need to change the current Windows-predominant domestic system, amid the debate over finding an alternative OS.

Mirae Labs CEO Cho Man-young, currently working with the World Wide Web Consortium (W3C), which is a global organization for web standardization, says, "In Europe and some developing nations where Microsoft products are too expensive, there has been a steady debate over using an alternative OS such as Linux since the mid 2000s, and some countries came up with solutions. It is good that Korea is keen on finding an alternative OS, but simply changing the OS will not solve all the problems. We need to look into changing the work environment where various OS systems could work." 

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- 1km내외 선형모양의 소나무재선충이 나무에 침입,
줄과 양분의 이동통로를 막아 말라죽게 하는 병
- 감염시 100% 말라 죽으며, 이상고온과 거름 등
기후변화가 재선충병 피해발생과
확산의 주요원인

방제활동은 잘 진행 중인가요?

- 2013년 10월 23일, 산림청 소나무재선충병
특별방제 대책 발표이후 약 70% 방제 달성
- 매개충 우화기 이전인 올해 4월 말까지
피해고사목 전량 제거 예정

소나무 살리기!
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소나무재선충병에 걸린 나무의 증상은?

- 아무런 이유없이 붉게 마르거나,
잎이 우산살 모양처럼 처지면서 죽어감



건강목

황변초기

감염말기

신고는 어떻게?

- 신고 대상 : 감염된 나무의 발견 및 불법 이동
- 포상금 : 관련규정에 따라 200만원 이하
- 신고방법 : ☎ - 소나무재선충병 신고센터

전국어디서나 **1588-3249**
또는 해당 시·군·구 산림부서

소나무재선충병 지역별 피해현황

재선충병 피해고사목의 발생분수/면적, 기관의 전문성/역지 등을
고려하여 발생 시·군을 5단계 (1급~5급)로 현황구분

구분	계	1급(심)	2급(심)	3급(중)	4급(경)	5급(경)
발생상황	전 지역 발생	피해 확대	일부상해	2년내형질	2년내형질	
지자체수	80	09	14	09	17	11

소나무재선충병의 발생원인

연도별 피해고사목 추이





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